



Invest**HK**

Future of Sourcing: 2021 and beyond

*Hong Kong's vital role in the global
supply chain*



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InvestHK foreword

We are pleased to share with you our thought leadership looking at Hong Kong's dynamic role in the sourcing world today. In this publication, jointly prepared with KPMG, we highlight important factors for you to consider when doing business in Hong Kong and across Asia.

Hong Kong plays a key role as a global trading and finance centre and is fast developing into a world-class technology and innovation hub. Our city holds an increasingly strategic role as a hub linking Mainland China and ASEAN countries.

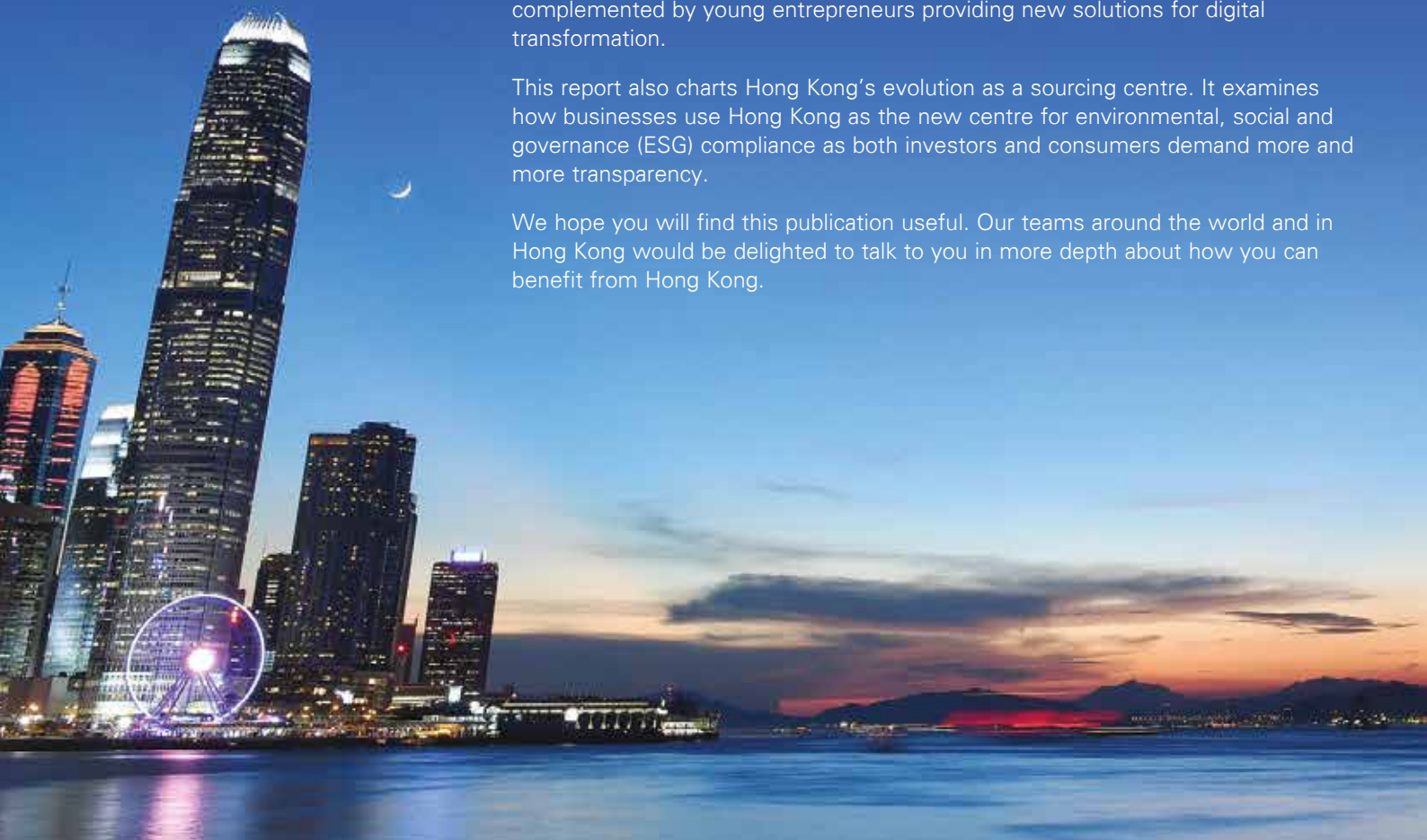
In addition, Hong Kong has long been appealing to international companies for its reliable legal system, low and simple tax system, world-class protection for intellectual property, and extensive financial and professional services.

To give you a close view of what is really happening on the ground in Hong Kong, this report features great insights from dozens of leading players across a wide range of industries, from long-established businesses in textiles and fashion to start-ups helping companies to digitalise their supply chains.

A few themes stand out. Building on decades of experience, Hong Kong is driving digital production with the use of technology tools in the 3D and virtual sampling space as it transforms into a smart supply-chain services hub. We have a rich pool of talent, experienced in managing global supply chains and powerfully complemented by young entrepreneurs providing new solutions for digital transformation.

This report also charts Hong Kong's evolution as a sourcing centre. It examines how businesses use Hong Kong as the new centre for environmental, social and governance (ESG) compliance as both investors and consumers demand more and more transparency.

We hope you will find this publication useful. Our teams around the world and in Hong Kong would be delighted to talk to you in more depth about how you can benefit from Hong Kong.



KPMG foreword

Sourcing opportunities are top of mind in Hong Kong as supply chains around the world grow more complex and get disrupted in the face of extraordinary circumstances.

In the wake of COVID-19, companies are assessing the continued viability of globally distributed production. In addition, ongoing US-China trade tensions may impact the production map. E-commerce has further altered how people buy things and what they buy.

For Hong Kong, these developments are important. Its role is evolving after decades as Asia's leading sourcing hub in which it oversaw the movement of materials and goods in and out of Mainland China – from and to the rest of the world. Operating models tuned to maximum efficiency have turned out to be hugely sensitive to external disruption.

Our report draws on the insights of KPMG professionals and industry experts to examine the current state of the sourcing industry in Hong Kong and the future of supply chains. It delves into how Hong Kong's long-standing strengths in areas such as legal and professional services, shipping, and logistics have adapted to changing circumstances.

The report then reviews the impact that innovation and new technologies have had on sourcing, focusing on how Hong Kong has developed capacities to cope with demands for new materials, product innovation, manufacturing techniques and retail platforms. Firms need to look hard at de-risking their supply chains to balance between resilience and agility.

Finally this report details how sourcing companies in Hong Kong are leading the way in implementing better governance and exemplifying more environmentally and socially responsible conduct.



Executive summary



Hong Kong plays an integral role in every link of the manufacturing chain, from product design and development to the delivery of goods to consumers. Our analysis focuses on several key points:



Hong Kong has continued to demonstrate its resilience and we can expect stronger economic growth through greater integration of the Greater Bay Area along with new best practices relating to environmental, social and governance factors.



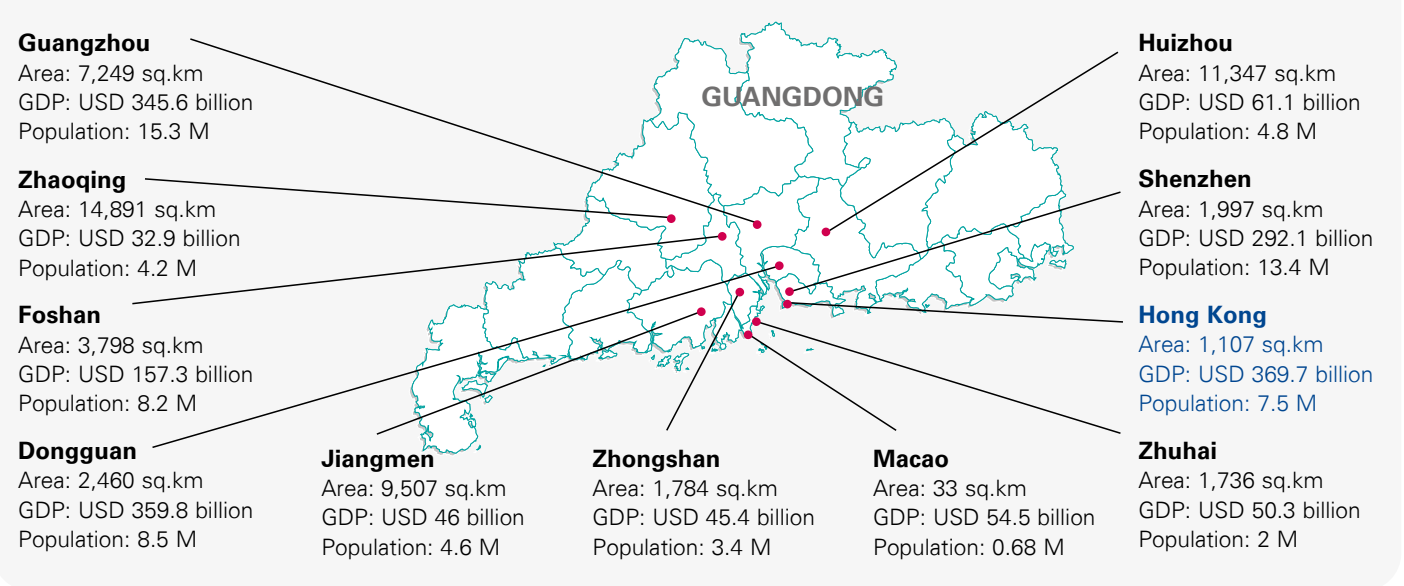
Ayesha Lau
 Managing Partner,
 Hong Kong
 KPMG China



- A high concentration of sourcing talent can be found in Hong Kong after industry specialists spent decades managing global trade and logistics
- Hong Kong’s role as a regional hub in the rest of Asia and its long-established ties around the globe show it is an ideal place to manage supply chains that have become increasingly complex as businesses relocate manufacturing operations outside of Mainland China to other manufacturing hubs within Southeast Asia
- Strengths in financial, legal and commercial structures make the city a preferred place to carry out business between Mainland China and the world, especially through national initiatives like the Greater Bay Area (GBA) (see Figure 1.1), a strategic development blueprint to link Hong Kong with Macao and nine cities in neighbouring Guangdong Province into an integrated economy and world-class business hub
- The Hong Kong government’s continuing support of innovation is critical to expand the city’s status as a sourcing hub, whether through funding, the ease of doing business, or favourable customs and finance policies
- Changing consumer expectations about the origin and manner of production of the products they buy are prompting new best practices relating to environment, social and governance factors
- New technologies are allowing businesses to operate more flexibly, fuelled by advances in manufacturing such as rapid prototyping, the emergence of new materials, and the proliferation of online platforms that can help companies better find the products they need

Combined, these factors play a pivotal role in reinforcing Hong Kong’s standing as one of the world’s leading sourcing hubs.

Figure 1.1 Greater Bay Area cities



Source: HKSAR Government

About Hong Kong

Hong Kong is a Special Administrative Region (SAR) of the People’s Republic of China and home to more than 7.5 million people. Based on the ‘One Country, Two Systems’ governance, the city has its own economic and administrative systems distinct from those of Mainland China.



Hong Kong is a vibrant and resilient place for business with decades of experience in both sourcing and supply chains along with a strong financial and professional services offering. Companies in Hong Kong are at the forefront of adapting to a more agile, innovative and digital era.



Stephen Phillips
 Director-General of Investment Promotion
 InvestHK

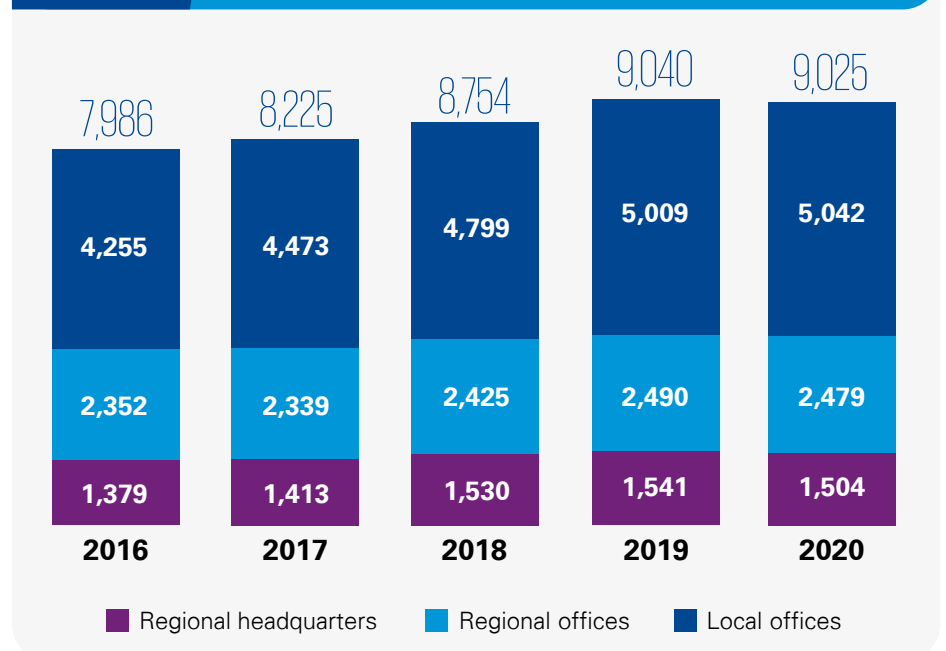


For example, its own currency, the Hong Kong dollar (HKD), is pegged to the US dollar (USD), which facilitates international business discussions and trade. This linkage illustrates that international business has been a cornerstone of the city’s economy. Hong Kong has long been popular for capital fundraising. Financial services and payment systems are highly developed, and available in multiple currencies. As Hong Kong encourages the free flow of capital for treasury and other functions, a high number of business operations are established in the city. Its two official languages are Chinese and English.

Hong Kong issues its own passport, which confers visa-free access to more than 160 countries and territories around the world. Hong Kong is also home to some 120 consular posts and officially recognised bodies from other countries. Building on this strong international presence, dozens of chambers of commerce operate in Hong Kong, many with dedicated committees for retail and sourcing, and offering channels for information exchange and industry advocacy.

In a similar vein, Hong Kong is a popular location for establishing regional headquarters (see Figure 2.1), and the high number of regularly held trade shows and industry-specific conferences reinforces the city’s standing as an excellent place to network, sign contracts and meet new suppliers. Furthermore, research for industry is well supported in Hong Kong. Cyberport, the Hong Kong Science and Technology Parks Corporation, the Hong Kong Productivity Council, and five public organisations to drive and coordinate applied R&D in selected focus areas: Automotive Platforms and Application Systems R&D Centre; Hong Kong Applied Science and Technology Research Institute; Hong Kong Research Institute of Textiles and Apparel; Logistics and Supply Chain MultiTech R&D Centre; and Nano and Advanced Materials Institute.

Figure 2.1 Number of regional headquarters, regional offices and local offices



Source: Census and Statistics Department, HKSAR Government

To date, Hong Kong has signed eight free trade agreements to secure favourable conditions for Hong Kong's goods and services: with Mainland China; New Zealand, the member states of the European Free Trade Association; Chile, Macao, ASEAN, Georgia and Australia. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), for example, covers trade in goods and trade in services, both of which confer preferential treatment for goods and services from Hong Kong entering the Mainland market. CEPA also covers investment as well as economic and technical cooperation.

Internationally, Hong Kong's agreement with ASEAN is especially important as that 10-nation region gains in stature as a manufacturing hub. ASEAN – comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam – was Hong Kong's second largest trading partner in merchandise trade in 2019.¹

Yet another hallmark of Hong Kong is its deep pool of talent. Hong Kong's unique history helps it draw skilled people who can enable supply chain players to flourish. Many have extensive experience engaging Mainland Chinese factories and are well-versed in relevant fields like quality control. Working alongside companies headquartered in Hong Kong with multilingual staff.

For these reasons, Hong Kong enjoys a unique position as a globally connected city that has grown through business expansion. The number of overseas and Mainland Chinese companies in Hong Kong has increased from 7,986 in 2016 to 9,025 in 2020.² Of these, nearly half came from import/export trade, wholesale and retail.

¹ Trade and Industry Department, HKSAR Government

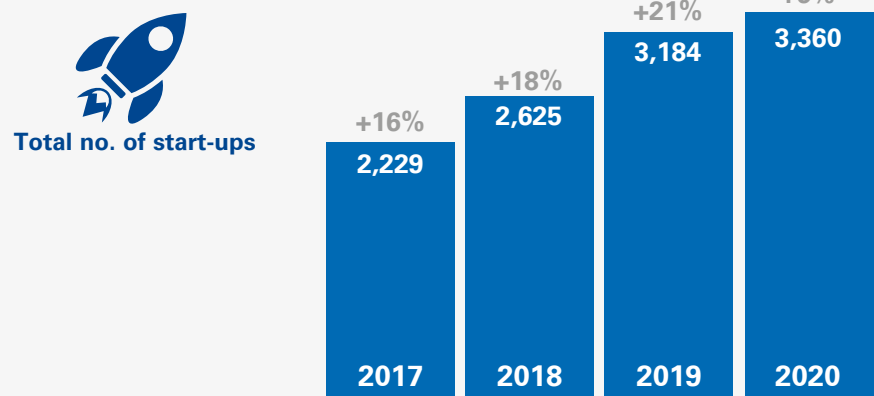
² 2020 Annual Survey of Companies in Hong Kong with Parent Companies Located Outside Hong Kong, Census and Statistics Department, HKSAR Government, November 2020



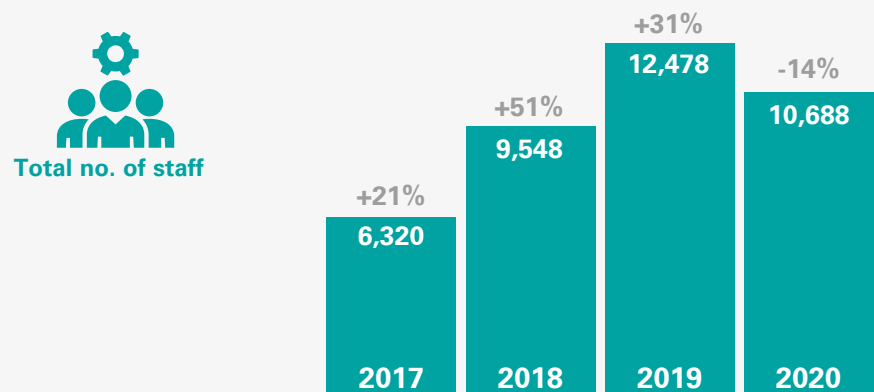
Start-ups also play an influential role in Hong Kong, and their growth over the same period was even higher, up 50.7 percent to 3,360 (see Figure 2.2). The start-ups encompassed different business sectors such as financial technology, e-commerce, supply chain management and logistics technology as well as information, computer and technology.

Figure 2.2 Hong Kong's dynamic start-up ecosystem

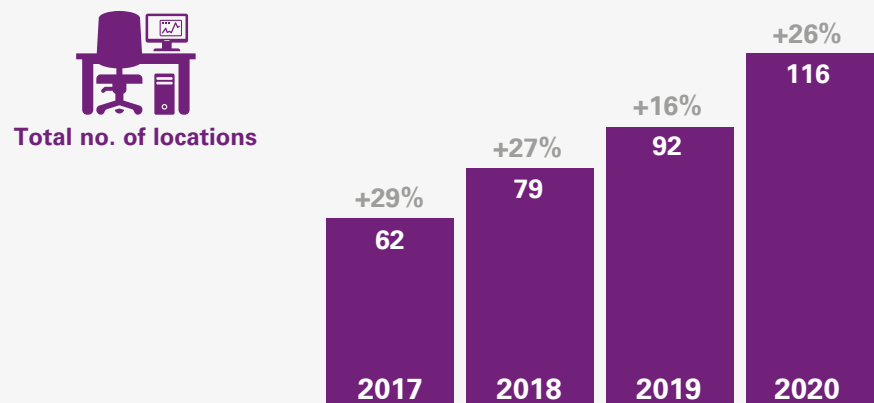
3,360 startups, **+51%** vs 2017



10,688 employees, **+69%** vs 2017

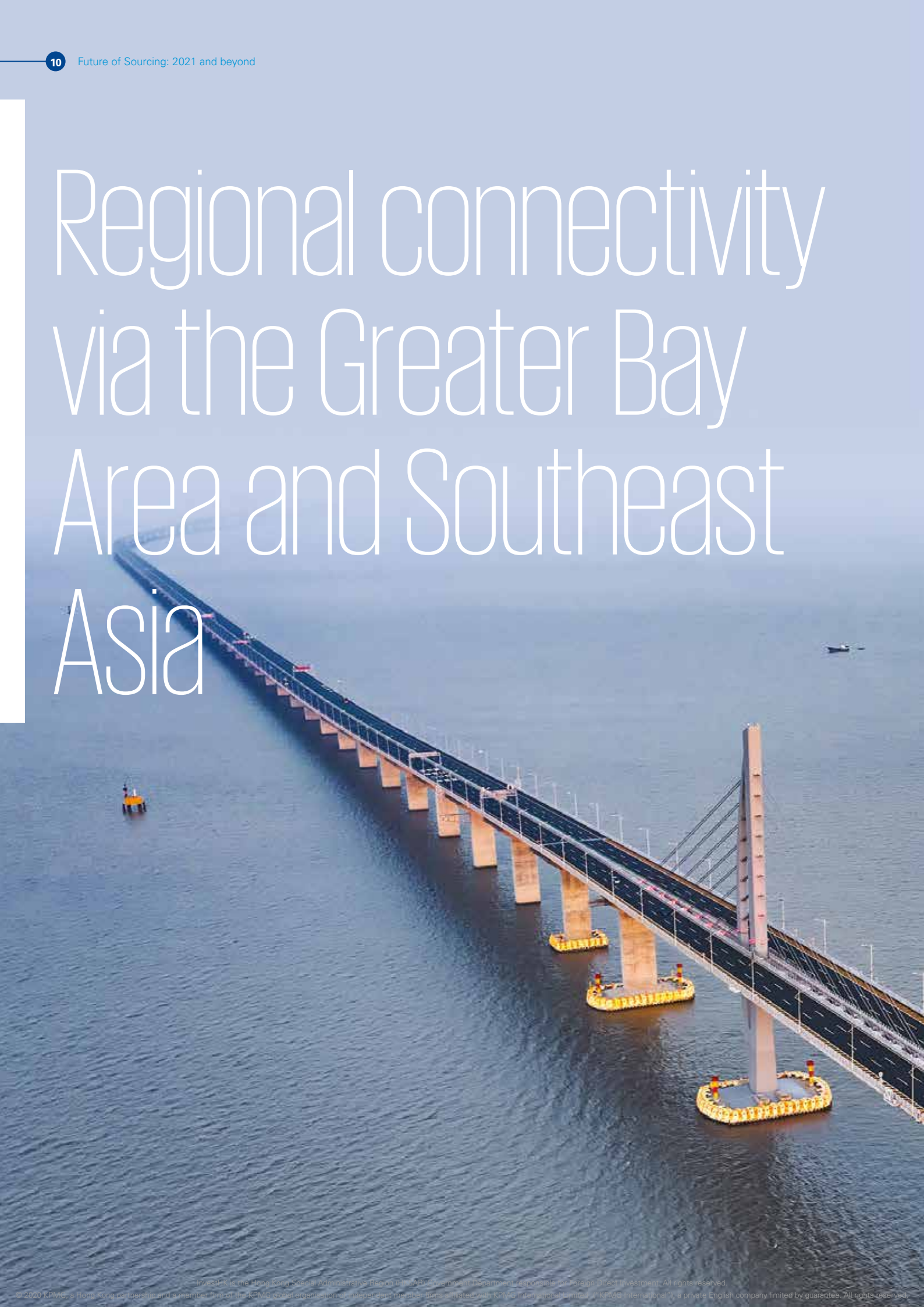


116 locations of co-work space / incubators / accelerators
+87% vs 2017



Source: HKSAR Government

Regional connectivity via the Greater Bay Area and Southeast Asia



The Greater Bay Area (GBA) Initiative is a strategic development blueprint to foster strong economic growth in southern China through a greater integration of the economies of Hong Kong, Macao and nine cities of the Pearl River Delta in Guangdong Province. Hong Kong is set to benefit substantially from being part of the initiative, giving it access to a large, more connected industrial and consumer market comprising over 72 million people. This means a deeper talent pool and increased R&D capacity as well as more opportunities for collaboration with universities and other research institutes in the region.

Possessing unique strengths under ‘One Country, Two Systems’ and key assets such as the rule of law, independence of its judiciary, international business environment and robust professional services, Hong Kong plays a pivotal role in the GBA’s development.

Customers expect a ‘factory-to-home’ purchasing experience in which their desired product is delivered straight to their door with exemplary service at the best price. Given its strategic location next to manufacturing hubs with world-class transportation and infrastructure, Hong Kong will continue to be integral to supply chains. They require fast and accurate order fulfilment, and therefore enhancing warehouse operations and logistics will be vital.

Connectivity within the GBA has already improved through the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which connects Hong Kong with the national high-speed rail network spanning more than 29,000 kilometres and covers direct train service to 58 destinations in Mainland China.



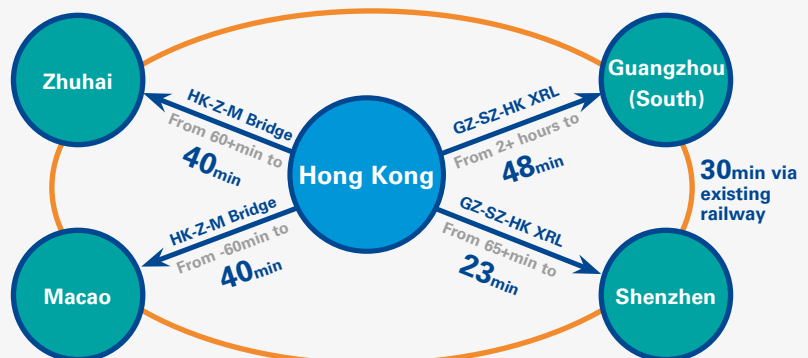
Hong Kong’s strengths lie in our international connectivity and agility to adapt to ever-changing business environments. The Greater Bay Area and ASEAN are excellent manufacturing bases, as well as home to hundreds of millions of potential and increasingly affluent consumers. Our city provides one of the best business environments in the region to take advantage of these strategic opportunities.



Jimmy Chiang
Associate Director-General
of Investment Promotion
InvestHK



Figure 3.1 GBA transport infrastructure is a game changer



Sources: MTR Corporation, China Railway and KPMG analysis

Hong Kong International Airport (HKIA) is another key to the city’s global connectivity. Half the world’s population lives within five hours’ flying time from HKIA, and cargo and airmail throughput in 2019 exceeded 4.8 million tonnes, most among airports internationally.³

Initiatives are in place to further improve the flow of talent, goods, finance and data within the GBA, while a Guangzhou-Shenzhen-Hong Kong-Macao innovation and technology corridor is being developed.

³ Hong Kong International Airport

Banking connectivity is another area that has evolved considerably in the GBA. One recent initiative to keep pace with market developments is Hongkong and Shanghai Banking Corporation's (HSBC) GBA+ Technology Fund, which debuted as a lending facility tailored to the needs of high-growth, early-stage companies engaged in business across the GBA.

David Harrity, Managing Director and Head of Growth Propositions of Commercial Banking at HSBC, says, "We need to match the rapid evolution of the market with new solutions." Such initiatives essentially tap Hong Kong's well-developed financial services to help the GBA move up the value chain with its own consumers.

In addition, as many factories in Mainland China are owned by Hong Kong companies, this translates into greater access to research and networking as well as the possibility of negotiating contracts with suppliers more easily.

Figure 3.2 ASEAN member countries at a glance



Source: KPMG analysis

For several years, multinational corporations with manufacturing capacity in China have been exploring diversification strategy commonly referred to as "China plus one", which means retaining a foothold in China, but expanding into a new jurisdiction for cost reduction or other reasons including geographical diversification.

Some Chinese manufacturing enterprises have also started to diversify to take advantage of the affordable labour costs across ASEAN. Vietnam has been one of the key locations for the "China plus one" strategy due to its geographical proximity to China, which reduces the risks and costs usually associated with multi-jurisdictional supply chains.

Hong Kong has a significant role to play with the growing complexity of supply chains and the need for a workforce with an international mind-set. It has signed free trade agreements (FTAs) with several ASEAN countries, which can reduce trade barriers and import taxation costs. Among the ASEAN countries, Vietnam, with which Hong Kong has an FTA in place, has more multilateral FTAs in place than any other jurisdiction which opens up more trade possibilities with larger markets.

Figure 3.3 Free Trade Agreement between Hong Kong and the Association of Southeast Asian Nations

Broadly speaking, for goods originating from Hong Kong, some of the ASEAN Member States have made the following commitments:

- Singapore commits to binding all its customs duties at zero, with effect from the date on which the FTA enters into force for Singapore;
- Brunei Darussalam, Malaysia, the Philippines and Thailand will eliminate customs duties of about 85 percent of their tariff lines within 10 years and reduce customs duties of about another 10 percent of their tariff lines within 14 years;
- Indonesia and Vietnam will eliminate customs duties of about 75 percent of their tariff lines within 10 years and reduce customs duties of about another 10 percent their tariff lines within 14 years; and
- Cambodia, Laos and Myanmar will eliminate customs duties of about 65 percent of their tariff lines within 15 years and reduce customs duties of about another 20 percent of their tariff lines within 20 years.

The dates of entry into force of the FTA for the following Parties are as follows:



Source: HKSAR Government

Figure 3.4 Asia starting to scale up

Exports, \$ billion

Export data	USD Bn	
Mainland China	239.8	Sep-20
Bangladesh	2.7	Jul-20
Cambodia	0.9	Apr-20
India	27.6	Sep-20
Indonesia	14	Sep-20
Japan	56.8	Sep-20
South Korea	48	Sep-20
Malaysia	21.3	Sep-20
Pakistan	1.9	Sep-20
Taiwan	30.7	Sep-20
The Philippines	5.1	Aug-20
Thailand	19.6	Sep-20
Vietnam	27.5	Sep-20
Total ex Mainland China	256.1	



Source: <https://www.ceicdata.com/en/countries>

Firm footing for manufacturing in Asia

Anne-Laure Descours
Chief Sourcing Officer
PUMA



With the manufacturing of many consumer goods set to stay put in Asia for the foreseeable future, Hong Kong is poised to maintain its status as the best place to oversee the supply chains that network the region, says Anne-Laure Descours, Chief Sourcing Officer of German sportswear brand PUMA.

For brands selling footwear and apparel, Descours says local knowhow helps explain the appeal. "It's not just because the costs remain lower than those in Europe and North America," she explains. "It's because of the expertise that's here. The speed and efficiency are here."

That said, large companies such as PUMA have still found themselves facing a dilemma. Having gone through a period of centralising strategic decision-making back in their home-country headquarters, often outside Asia, they discovered that product knowledge, particularly as it relates to manufacturing, now sits at the site of production in factories.

Moreover, with any major movement to "near-home sourcing" in Europe or the US highly unlikely to take place soon, Asia will remain key, which Descours believes are best managed from within the region.

PUMA's solution was to relocate its sourcing headquarters to Hong Kong. "A lot of multinationals in my industry are still very headquarters-focused when it comes to sourcing decisions," she observes. "Six years ago, we decided that with our manufacturing being based in Asia, we wanted our

sourcing leadership team to be closer to those factories."

A French national with nearly 30 years of experience in the sourcing industry including spells with industry stalwarts Li & Fung and Otto International, Descours joined PUMA in 2012 to first oversee the company's global sourcing activities of apparel and accessories arms before taking over the role of chief sourcing officer for the brand in 2019.

"Sourcing decisions used to be headquarters-driven," Descours notes. "But technical product and manufacturing knowledge has largely disappeared from headquarters to be replaced with an emphasis on design and marketing."

Asia's built-in advantages

Collaboration between brands and manufacturers will be even more vital in the future, she adds, because the knowledge about manufacturing is most current in Asia and less so in Europe or the US. "At Puma, we felt it was important to have a stronger presence on the ground here."

The outcome of this strategic switch is an integrated supply chain based around just 25 key manufacturing partners across the region. Between them they are responsible for making 85 percent of the company's products.

PUMA has also put in place an operation that has smoothly and successfully rebalanced its production between Mainland China and to other locations across the region. Nevertheless, it retains a substantial

presence in the country to make goods for the Chinese market.

Looking to the future, Descours sees the region's grip on sports apparel and footwear production further strengthening. "The manufacturing talent is sitting in Asia, in Vietnam, Bangladesh and elsewhere," she says. "That means more outstanding technologies are being developed in the region."

Apart from Hong Kong, Descours sees India playing a greater role, thanks to the talent of its people, with Singapore also being able to take advantage of its strengths in information technology.

But when it comes to overseeing those supply chains, Hong Kong is the best location, Descours says. "The flexibility and adaptability of Hong Kong people is key to the city's efficiency," she adds, noting the city's entrepreneurial talent, overall ease of doing business and central location make it an ideal hub.

In addition, being close to manufacturing operations gave PUMA a major advantage when the coronavirus crisis struck, Descours recalls. As demand dried up, it became even more evident what problems could arise when manufacturing knowledge is not integrated with the retail side. "Brand-focused organisations struggled because it was hard to understand the supply-chain side of the equation," she says. For Puma, "an Asia-based structure provided us a big advantage."

Expanding digital reliance post-pandemic

Christophe Roussel
Executive Vice President
Global Sourcing, Gap Inc.



US fashion retailer Gap Inc. sees a silver lining amid the COVID-19 situation in that the fashion industry is being spurred to a fuller embrace of digital technology, according to Christophe Roussel, its executive vice president of international sourcing and production.

Roussel, a sourcing industry veteran with more than 30 years of experience, says COVID-19 will accelerate changes that were already taking place in sourcing and supply-chain operations.

“Hong Kong was long a crossroads for people to meet,” Roussel explains. “A gateway for countries to buy machines from Mainland China or to source raw materials, all of which made Hong Kong a platform for the global fashion industry.”

“But the centre of gravity for garment-making has been shifting during the last four or five years — and at an accelerating rate in the last 12 to 15 months — as manufacturers move from China to Southeast Asia, and now to South Asia,” he adds. As a result, new regional strategies and a rapidly expanding digital element are emerging.

Roussel, who oversees Gap Inc.’s global sourcing operations around the world, believes the city will remain relevant. “Hong Kong is a safe place to be. It is tax-efficient, it has got great talent, and — COVID-19 aside — it is easy to travel from here to everywhere else in the region.”

That makes it a strong location for managing functions that can be spread across several countries. “My data analytics team sits in Delhi,” Roussel notes. “New fabrics and materials are being developed in South Korea and Taiwan. That means we’re going to see more partnerships and collaboration in the future, along with more digitalisation and more digital tools.”

Viral accelerator

The impact of COVID-19 will further accelerate change in sourcing and supply chains. “From sustainability to digital solutions, the fashion industry has been lagging behind,” Roussel explains, adding that the coronavirus crisis coupled with a reassessment of demand forecasts for clothing could lead to better practices.

“We had been seeing the fashion industry increase its use of digital technologies,” he says. “But the coming months will see a massive shift to online processes because of people being unable to travel.”

For Hong Kong, this means adaptation. “As we start to see digital platforms emerge, the days of companies sending so many buyers here are over,” Roussel says. “Instead, virtual samples will enable us to be both faster and more responsive.”

In the future, the industry can expect to see predictive supply chains and product development. Technology must be tailored to match supply

and demand, and this calls for more widespread adoption of digital initiatives and training. On this front, Roussel sees universities as playing an especially critical role with their course offerings and alignment with industry needs.

A greater reliance on digital solutions could also change the skillsets required for working in sourcing and supply-chain management in Hong Kong, Roussel adds. Yet productivity increases and greater efficiencies should see the value the sector adds to the Hong Kong economy continue to rise. Merchandising roles are also important for the economy.

“Business activities here will become more strategic and less tactical,” says Roussel. “We’re going to see a future of predictive supply chains and product development with technology used to match supply and demand. That means we’re going to see fewer, bigger vendors, consolidation and more strategic alliances.”

All these trends point to a need to pay close attention to the supplier ecosystem, which Roussel says should consist of co-location with fabric producers. Amid the consolidation, the biggest and toughest can expect to stand out.

Macrotrends in Hong Kong today





Hong Kong is in a unique situation amid so much change. We do see digital adoption taking shape in this new era of innovation with product and material developments happening seamlessly across a more agile workplace. Talent development is at the core as we see the need for an internationally minded workforce to drive the origin and manner of production across a more complex supply chain.



Anson Bailey
 Partner, Head of Consumer & Retail, ASPAC
 KPMG China



Recent years have been characterised by unprecedented change. Industry shocks, business model disruptions, pivotal economic and geopolitical moments, and changing consumer behaviour. These have all been magnified by COVID-19, creating a perfect storm for all industries. Hong Kong has continued to demonstrate its resilience in navigating through the challenging climate.

Companies are rethinking their strategies when it comes to sourcing and supply chains. The far-reaching impact of COVID-19 required businesses to take a closer look at their production operations. Certain priorities became newly urgent, among them business continuity planning and advances in manufacturing such as rapid prototyping.

These new developments came as US-China relations kept evolving, bringing opportunities to Hong Kong as a sourcing hub. As a result, companies are finding it imperative to review best strategies for preserving their market share in the world's two largest economies and elsewhere.

In view of international trade developments and COVID-19, combined with advances in robotics and automation, many businesses are taking a fresh look at the shape of their supply chains and moving from traditional forecast-led models to those that are demand-driven.

Alex Capri, Research Fellow with the Hinrich Foundation, an Asia-based philanthropic organisation focused on sustainable global trade, notes that globalisation has evolved. "What's happening is that global value chains are fragmenting specific industries and companies," he says. Capri adds that COVID-19 as well as advances in robotics and automation are leading many businesses to take a fresh look at their supply chains.

Capri's analysis is echoed by Christoph Zinke, Head of Strategy Group, China and Asia Pacific, KPMG China, who notes that companies are having to wrestle with additional complexity.

Figure 4.1 A 'perfect storm' shaping sourcing



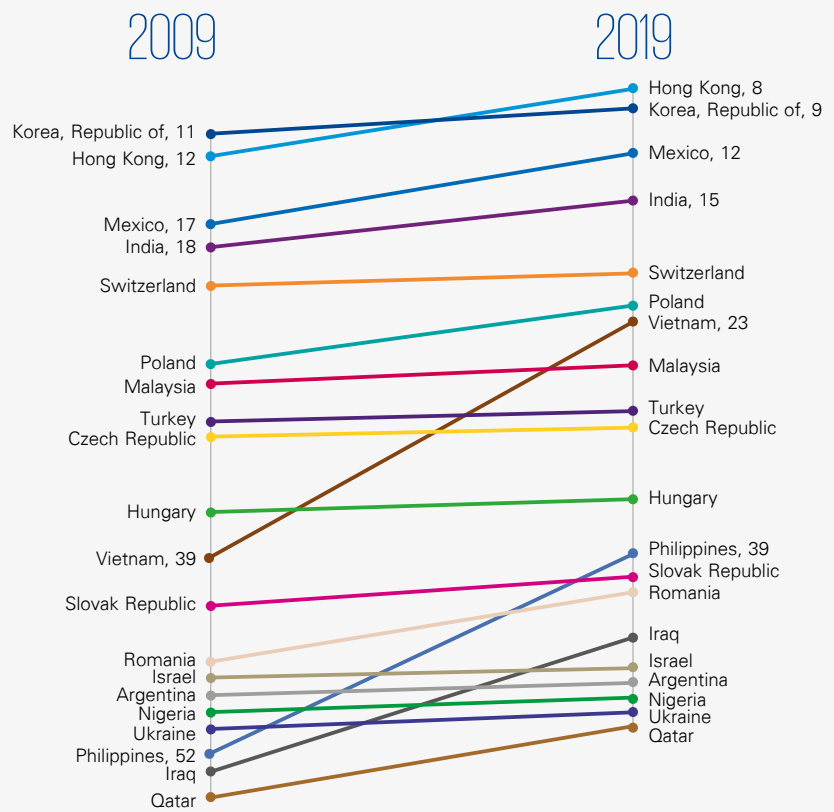
Source: KPMG analysis

“Supply chains have become more globalised in recent decades,” Zinke explains. “The greater efficiencies arising from this have played a crucial role in generating the abundance of ever-more-affordable products and services the world now enjoys.”

“However, as COVID-19 highlighted all too clearly, operating models tuned to maximum efficiency have turned out to be hugely sensitive to external disruption,” he adds. As a result, companies need to look hard at how to de-risk their supply chains, finding an equilibrium between resilience and agility.

Figure 4.2 Hong Kong moves up the ranks of global traders

Merchandise traders improving their rankings among the world’s top 50, 2009-2019



Source: World Trade Statistical Review 2020, World Trade Organisation

Hong Kong is effectively transforming from being home exclusively to traditional sourcing in which businesses act as intermediaries between vendors and goods. Today Hong Kong and its many industry players are responsible for a fuller range of supply-chain management tasks, including a rise in higher-value-adding functions.

Over the past decade, Hong Kong has strengthened its position as a major international trading hub. According to the World Trade Organisation’s *World Trade Statistical Review 2020*, Hong Kong’s global ranking of merchandise trading increased from number 12 in 2009 to number 8 in 2019 (see Figure 4.2). This reflects the increase in capacity and efficiency of import and export of goods to other regions by land, air and sea.



More than ever, the leverage of technology from digital to data science is a must. Hong Kong offers a premier location for global sourcing and provides the necessary capabilities to continue to be one of the leading sourcing and supply-chain hubs globally.

Christoph Zinke
 Partner, Head of Global Strategy Group, ASPAC Chief Proposition Officer KPMG China



Focusing on holistic strategy in sourcing

Gareth Brooks
Managing Director
VF Asia Ltd



VF Corporation, owner of dozens of North American and European outdoor apparel and active gear brands including The North Face, Timberland, Vans and others, believes businesses that think strategically and holistically about the entire product supply chain can boost their competitive edge, especially in times of change.

By consolidating its vendor base and expanding the type of work it does in China, VF Asia, with more than 1,100 associates based in Hong Kong, has made 'strategic sourcing' its mantra.

Sourcing has gone from being dominated by Mainland China – particularly the Greater Bay Area, of which Hong Kong is a part – to seeing other locations like Vietnam, Cambodia, India, Bangladesh and Kenya emerge as players in the landscape. As more manufacturers establish operations in farther corners of the world, a new way of approaching Asia has taken shape.

Gareth Brooks, VF Asia's managing director, says this shift in production has seen Hong Kong's role for VF evolve to take on more strategic tasks that divide into three areas: marketing, sales, and product supply-chain management. China has switched from the company's largest supplier to just its third-largest among countries around the world.

Most of VF's products come from manufacturers with whom the company has had long-standing relationships. That means it is

accustomed to having multiple facilities in various locations but run by a few key partners. Brooks says it now aspires to achieve "better planning and applying practices that help us to unlock value and speed within our supply chain".

With the abundance of consumer data already available, Brooks adds, countless opportunities are in place to better tailor designs, fast-track development processes and bring about shorter production cycles. Traditional merchandising jobs are giving way to product creation and development.

"Five or six years ago, we took the decision to begin to balance our sourcing footprint much more," Brooks explains. "That changed the role and the type of work that we did within the Hong Kong office, from being transactional to being much more focused around strategy." In a sign of the changing nature of sourcing hub work, VF's Asia-Pacific head office in Hong Kong, united two previous offices in the region.

Playing to strengths, confronting challenges

Hong Kong's status as "an important financial hub" reassures companies like VF. "We are a multi-billion-dollar product supply organisation, so being able to have the appropriate financial controls is important," he adds.

Yet perhaps equally significant is the city's unique blend of a strong supply of leadership staff and a history

of transformation. "The strategic thought skills that exist in Hong Kong are good," Brooks observes, while noting change is underway. "We're moving from a wholesale-dominated industry to one where co-creation with customers is now possible."

As customers assert more clearly what they want, companies like VF are witnessing more digital product creation. The supply chain is increasingly reliant on digitalisation and the data that can be generated at every point in a product's journey.

Brooks says automation offers profound potential to streamline production once all processes are traceable. One area that could benefit from this move is the environmental, social and governance (ESG) space, a fast-rising priority globally, by allowing for the greater transparency that consumers are now expecting of brands.

Product development teams need to be able to respond to these market developments, and that requires an agile and well-skilled workforce. Brooks says more data scientists and Hong Kong's educational institutions can deepen their partnership with industry to make the most of technologies like AI, blockchain and robotics.

Tapping into a deep knowledge base

Lynne M. Sprugel
 Founder and CEO
 abuzz global, LLC



What is dynamic about Hong Kong as a sourcing hub is the breadth and richness of its knowledge base and the expertise people have built up over generations, says industry veteran Lynne Sprugel, founder and CEO of abuzz global, a consulting firm focused on sourcing and supply-chain risk management planning.

Although production is moving further afield, with factories that used to be concentrated in southern China relocating to Southeast Asia and South Asia, many companies still see Hong Kong as a key centre, says Sprugel, who previously served as vice president and managing director of international sourcing operations at Academy Sports and Outdoors, a Texas-based sporting goods and outdoor lifestyle retailer.

"The talent here understands the world," she adds. "So while everything is becoming more distributed nowadays, we're still seeing an ecosystem with its core in Hong Kong."

The city's strength lies in knowledge and experience acquired over decades. "There's a breadth of trade-related knowledge and intelligence in Hong Kong that you can't find anywhere else in the world," she says.

"People here know the region. Hong Kong also hosts the key international conferences. This is where you can get the flavour of what's happening everywhere."

At times of crisis, this knowledge can make a crucial difference, Sprugel adds, noting there are limitations on what can be done remotely. "Sometimes you need people on the ground who can go and visit factories to see if they are up and running again," she says. "You need people who know whom to call to find out whether goods can be moved between provinces in China."

In addition, Hong Kong's high concentration of consulates and trade offices enables companies to rapidly gather information about laws and regulations in countries and territories around the world. "In Hong Kong, you can go to all the consulates in one week," Sprugel observes. "You couldn't do that in the US."

Adapting to disruption

Another hallmark of the city is its tradition of adaptability, which is helping it cope with changes that are disrupting sourcing supply chains, notably those arising from new technologies.

"A lot of innovation takes place here," says Sprugel. "There's a thriving business in Hong Kong for things such as online sample approvals, colour management [for textiles], AI, data crunching and augmented reality/virtual reality systems. These are revolutionising what can be done."

The city is also a centre of development for supply-chain management software, she notes,

citing Kowloon-based sourcing solutions company CBX Software as an example. And Hong Kong has a growing reputation for coming up with sustainability solutions, particularly in the textiles and garments industry, including the work being done by organisations such as the Hong Kong Research Institute of Textiles and Apparel on circularity and the garment-to-garment business model.

As a result, Hong Kong is emerging as a testing ground for fresh ideas and new forms of collaboration, both within and between industries as well as among the city's growing number of industry-oriented research institutions and business incubators.

"Hong Kong is resilient," Sprugel says. "People were concerned about the unrest and the coronavirus, but we've already been pleasantly surprised how quickly things have come back. That's a tribute to the Hong Kong work ethic and its culture of making things happen."

Sprugel says the city should "tell the world that it is still a great place to do business" and sees potential for better messaging. "People on the outside of Hong Kong just see the bad news," she adds. "What's needed now is for the public and private sector to tell people about the opportunities here from a business perspective."

Adapting to a new world of possibilities

Roger Lee
CEO
TAL Group



It is no understatement to assert that TAL Group, a Hong Kong-based global company offering quality garment manufacturing, innovative products and services across stages of the apparel supply chain, is influential in the dress-shirt business.

TAL Group's factories across Asia and Ethiopia have a combined annual capacity of up to 55 million items of clothing, including one in six dress shirts sold in the US. The production is all overseen by a staff of 300 in Hong Kong. Pointing to the knowledge and experience the city's professionals have acquired over the decades, CEO Roger Lee believes "the industry's brains are still in Hong Kong".

"From a brand point of view, Hong Kong has always been the sourcing centre," Lee explains. "It's so convenient and dense that in a one-week stay you can visit representatives from more than 30 suppliers."

By continuing to adapt to the relocation of manufacturing and emergence of new possibilities arising from digital technologies, Hong Kong is well positioned to retain its position at the centre of the global clothing industry in a post-COVID-19 world, Lee adds.

Yet companies such as TAL Group are now overseeing operations that are becoming ever more dispersed. Today, only 10 percent of its manufacturing is conducted in Mainland China. Instead, Southeast Asia has become its main production hub, especially Vietnam, which is now home to nearly half

its 20,000-strong workforce. Most recently Ethiopia has become a growth centre, as the company opened its first factory there three years ago.

For Hong Kong to burnish its competitive appeal, Lee says, it needs "a new mindset, including being able to react faster to the impact of new technologies".

A more accelerated industry has become the norm. As part of a movement towards greater efficiency, everyone is reducing their number of suppliers, notes Lee, which in turn is allowing for brands to expect a far faster delivery of new products.

Digital samples, for example, can cut the amount of time needed to develop and get goods to store from 12 to 18 months to just a few weeks, he adds.

Post-COVID-19 reality

Travel restrictions arising from the COVID-19 pandemic will lead to the faster take-up of such practices now that businesses have discovered that many meetings previously held face-to-face can now take place effectively online.

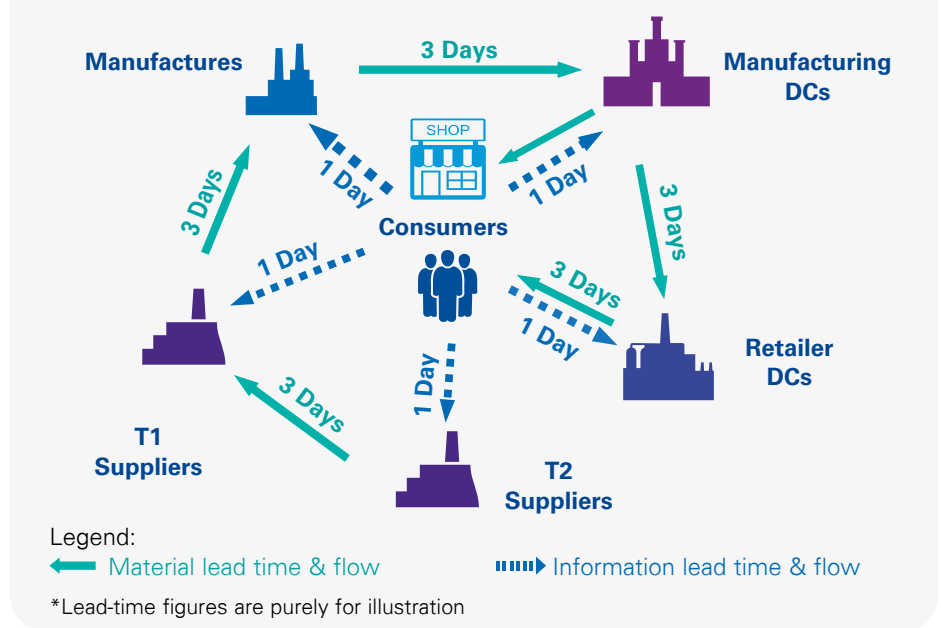
"We've been pushing the use of virtual samples for a while," Lee says. "Now our customers are being forced to move to this new normal." For TAL Group, this means that while Hong Kong remains its hub, its primary focus will instead be on sales and strategy.

Lee sees the COVID-19 pandemic as underlining the need for companies

to spend more time on business continuity planning. For clothing industry mainstays like TAL Group, this assessment is leading to continued steps towards reducing the number of its suppliers at the same time as it expands its global footprint.

In these circumstances, a change in mindset and approaches would serve both Hong Kong business leaders and government well, Lee says. Formidable as the city's textile heritage has made it, rivals could emerge in the future.

But with its more than 70 years in operation, TAL Group has strong ties to Hong Kong, for its business began as a local cotton-spinning company that transformed into a global garment firm. Lee is keen to emphasise the city is as comprehensive an apparel hub as anywhere. "If you're a clothing or fashion brand, you can come to Hong Kong and see everyone you need to."

Figure 4.3 Example of a demand-driven supply-chain model

Source: KPMG analysis

Hong Kong's decades of experience and access to Mainland China's massive skilled labour force can help to strike that equilibrium. Anderson Lee, Business Director of Hong Kong Non-Woven Fabric Industrial, a long-established textile business, notes the city has "close groups of people who can help provide all the knowledge needed for developing products here, then producing them in Mainland China". These businesses can be counted on to keep up investments in R&D activities.

As China continues its progression from making mass-produced light industrial goods to include more information technology and other higher-end electronic products and their components, pharmaceuticals, and automotive components, buyers from around the world are paying heed.

Anne-Laure Descours, Chief Sourcing Officer of German sportswear brand Puma, says experience accounts for Hong Kong's strong appeal. "It's not just because the costs remain lower than those in Europe and North America," she adds. "It's because of the expertise that's here. The speed and efficiency are here."

Moreover, even when factories move out of Mainland China, they are often reliant on its components and raw materials, notes Steve Feniger, Chairman of 55 Consulting, a supply-chain advisory firm. "China is going to remain the dominant force for many products," he says.

Feniger, a 30-year industry veteran and author of a book on sourcing in China, adds that the country is capitalising on developments in automation to assure its prominence in the sourcing landscape. "Chinese manufacturers are investing enormously in robotics," he explains. "The wave of automation that is resulting will let them reduce prices and stay competitive for years to come."

Amid these developments, Hong Kong's regional role is changing and driving supply-chain connectivity between Mainland China and Southeast Asia, according to Ben Simpfendorfer, Founder and CEO of Silk Road Associates, which advises multinationals on commercial strategies in Asia and the Middle East. "The city's leading manufacturers are already invested in Southeast Asia and their numbers will rise rapidly as firms look to diversify," he says.

Simpfendorfer notes global supply-chain disruption is affecting all industries. "The sheer number of companies seeking to build supply-chain resiliency will only add to competition for capacity," he adds.



Legal, taxation and compliance considerations



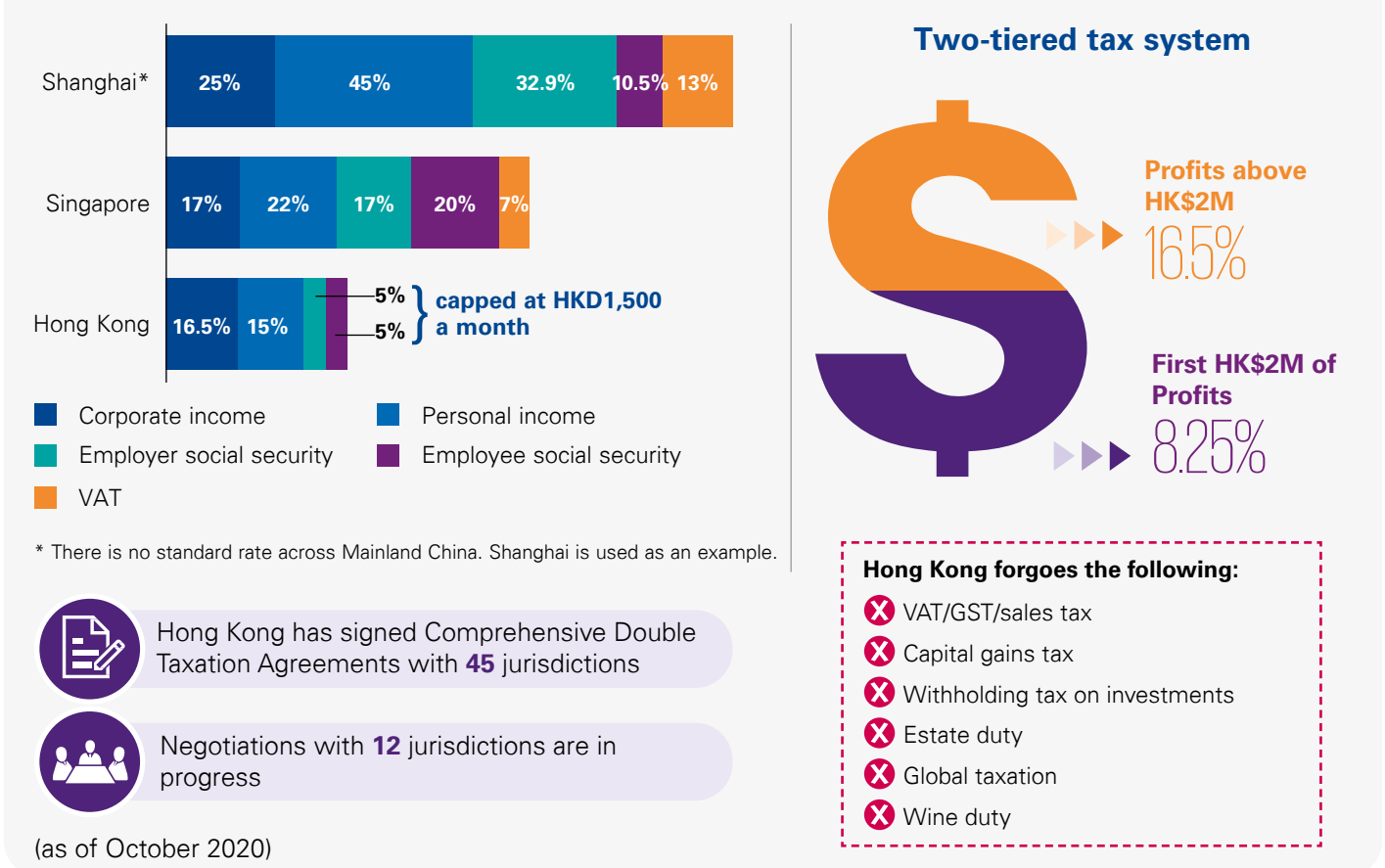
What makes Hong Kong unique as a sourcing and supply-chain hub is its broad array of services available to companies looking to buy and sell goods and inputs. As a free port, Hong Kong has no customs tariffs, and it levies excise duty on just four items: distilled spirits, tobacco, hydrocarbon oil and methyl alcohol.⁴

Hong Kong has long been known for business confidence in its transparent and fair regulatory regime, well established legal and accounting system, ease of fundraising with diverse financing tools, and free flow of capital. Hong Kong is also home to renowned professional services firms with extensive global networks.

Ease of setting up a business

It is quick and straightforward to set up a business presence in Hong Kong compared to other nearby jurisdictions. A business can choose to incorporate a new Hong Kong company (usually a private limited company) or register an existing foreign company as a branch in Hong Kong. Generally speaking, a Hong Kong private limited company can be set up with just one shareholder and one director, and neither needs to be resident in Hong Kong. A Hong Kong registered office address and a company secretary based in Hong Kong are required, but there are numerous company secretarial providers that can provide the required services. There is no minimum share capital required, and the capital can be denominated in any currency.

Figure 5.1 Hong Kong’s tax system in brief



Source: Inland Revenue Department, HKSAR Government

⁴ Customs and Excise Department, HKSAR Government

Excelling as a global gateway

Mark Slade

Managing Director for Hong Kong and Macao
DHL Global Forwarding



With 380,000 people working in more than 220 countries and territories, DHL is well-versed in operating a vast network. So when Mark Slade, DHL Global Forwarding's managing director for Hong Kong and Macao, calls Hong Kong Asia's global air gateway, that amounts to a weighty endorsement of the city's essential status.

For a company that depends on smooth trans-shipments, Hong Kong offers unrivalled value given its geographic location within just a few hours of dozens of major cities in various countries, Slade notes, as well as the city's free port status with almost no taxes or tariffs.

The Hong Kong government imposes no duty and only wants to know what goods are brought in or out as a matter of statistics, not for revenue. That means a company does not need to get bogged down in paperwork and that goods can move nimbly across Asia.

Hong Kong International Airport's excellent connectivity is a particular strength for DHL and other companies needing to move goods around, particularly high-value items. While most goods being transported by ship now leave Mainland China from one or another of its many ports, when it comes to air freight, Hong Kong remains the region's key gateway to the world.

"From Hong Kong, our export business is balanced about a third each to Asia, Europe and the US," Slade notes. "We have a good balance of freight types built around our traditional strengths: high-tech, engineering, manufacturing, garments and luxury goods, moving both components and finished goods for clients."

This in turn allows for highly effective inventory management, while its legal and financial strengths make it an ideal centre-point for handling contracts and payments. Coupled with a diverse array of professional services on offer and business-to-business network, Slade believes Hong Kong has world-class infrastructure. "The ecosystems that exist here have been built up over decades," he adds.

Durable amid disruption

Slade describes the network of supply chains running out of southern China through Hong Kong to the world as indispensable and too robust to be replaced.

Those ecosystems, however, are evolving and becoming more intricate as companies strive to find new ways to make their operations more efficient amid changes in the wider environment.

Supply-chain managers are now having to navigate geopolitical tensions and COVID-19's impact on both production and demand. As they further contend with longstanding issues such as rising labour costs and other outlays plus

greater demand for environmental, social and governance (ESG) transparency, companies are coping with complexity.

"Increasingly, the value proposition is now about integrating all these different pieces together," explains Slade. "This calls for being able to retain knowhow and knowledge in one place." For DHL Global Forwarding, that location is Hong Kong. Slade cites the city's status as Asia's principal international finance centre as a significant asset.

"At the core of an integrated supply chain stands finance," he says. "With Hong Kong's financial status continuing to grow in status, not just as a provider of trade finance, but also as an off-shore renminbi centre, it's where companies can find everything that they need to handle their supply chain and sourcing needs."

As well as Hong Kong's knowledge strengths, Slade praises the integrity of staff in the city. "There's a very strong compliance culture in Hong Kong. That extends from financial and quality audits to the transparent and credible environmental assurances necessary nowadays."

"I'm absolutely optimistic that companies will continue to source and ship goods through Hong Kong," says Slade of the city's future. "As a global air gateway, Hong Kong will continue to be the leader for the foreseeable future."

Business-related legislation in Hong Kong is constantly being reformed and updated. The most recent major update to Hong Kong company law in 2014 greatly modernised and simplified the laws around companies. Some notable changes included making the legislation itself easier to read and understand, greater flexibility for companies to structure their share capital, and simplifying the ongoing reporting process for small and medium-sized enterprises.

Generally, Hong Kong is a highly open economy for foreign investment. As stated in Hong Kong's Basic Law, there are no foreign exchange control policies and the Hong Kong dollar is freely convertible. There are no restrictions on the remittance of money abroad. Capital can flow freely to and from Hong Kong, greatly assisting the speed and ease of business.

Well-established legal system

One of the main pillars supporting Hong Kong's reputation as a global financial hub is its well-established common law jurisdiction with a well-established court system. In addition, Hong Kong is a prime venue for international legal and dispute resolution services through arbitration and mediation.

Hong Kong's arbitral awards are enforceable in over 150 Contracting States to the New York Convention. This is complemented by respective arrangements for reciprocal enforcement with Mainland China and Macao SAR. Moreover, a number of well-respected international institutions reside in Hong Kong. Their presence has fostered Hong Kong's development as the leading international legal and dispute resolution hub in the Asia-Pacific region and beyond.

Another major factor that attracts businesses to Hong Kong is the diverse talent pool available and straightforward employment laws and regulations. Compared to many parts of the world, Hong Kong is considered to be one of the more "employer friendly" jurisdictions. In general, employers and employees are free to agree on work arrangements including pay, probation periods and notice periods. Requirements such as minimum wage, annual leave, statutory holiday and severance pay are generally not considered to be too onerous for employers.

Unique tax benefits

The city has a tax system that is among the world's simplest, states Lachlan Wolfers, KPMG's Hong Kong-based Global Head of Indirect Tax Services. "Hong Kong has no sales, goods and services or value-added taxes, no capital gains tax and no withholding tax on management fees paid to overseas companies," Wolfers says.

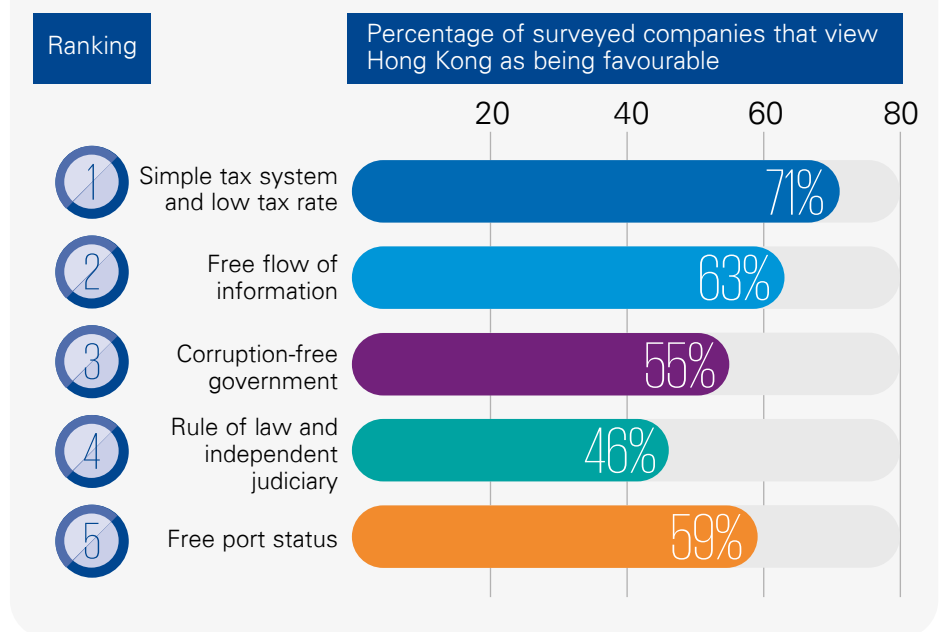
Instead, the focus is on a salaries tax capped at a standard rate of 15 percent, property tax of 15 percent, and corporate tax. For companies whose business activities take place in Hong Kong, the first HKD 2 million in profits are taxed at 8.25 percent, and any excess is subject to 16.5 percent.⁵ In addition, a two-tiered tax rate exists for unincorporated businesses such as partnerships and sole proprietorships, at 7.5 and 15 percent.

Hong Kong's tax system is territorially based, so tax is not levied based on a company's residence, and therefore, there is no need for a statutory definition of the term. The concept of residency does, however, have some importance in the application of other provisions, such as transfer pricing, offshore fund exemptions, and double-taxation treaties (of which more than 40 agreements are now signed and in effect). Comprehensive double taxation agreements exist between Hong Kong and several countries, including Canada, France, India, Indonesia, Italy, Japan, Macao, Mainland China, the UK and Vietnam.⁶ Note that the common law concept of residency applies in the absence of specific provisions to the contrary.

⁵ Tax Rates of Profits Tax, HKSAR Government

⁶ Inland Revenue Department, HKSAR Government

Figure 5.2 Top five factors for the choice of business location and Hong Kong's favourableness, 2019



Source: Census and Statistics Department, HKSAR Government

In terms of the basis for taxation, Hong Kong operates territorially: non-capital profits sourced in Hong Kong should be subject to a Hong Kong profits tax. Under the territorial basis of taxation, foreign-sourced income is outside the scope of Hong Kong profits tax.

A string of international agreements between Hong Kong and other jurisdictions also offer reasons for running Asian operations out of Hong Kong. Tax treaties with members of the ASEAN make it a good location to run holding companies that do business in that part of Asia. For example, if a business wants to establish a factory in an ASEAN-member country, a holding company in Hong Kong can be used to oversee capital investments in property, plant, equipment, fixture and fittings.

As for tax benefits within Hong Kong, these include enhanced deductions for qualifying R&D expenditure, including a 300 percent deduction for the first HKD 2 million and 200 percent on amounts exceeding HKD 2 million. Furthermore, the potential non-qualifying expenditure is subject to a 100 percent deduction.⁷ Qualifying expenditure includes direct employee costs and consumables, as well as payments to designated local research institutes.

"Tax will always be a factor in a supply-chain organisation," Wolfers says. "In Hong Kong, planning for this is almost always easier than anywhere else." With no capital controls, the city is an ideal place for running treasury management functions and for arranging and managing funding.

However, companies should not interpret this to mean tax scrutiny and payments are taken lightly, says Eugene Yeung, Partner, Tax, KPMG China. "Like everywhere, as the global tax landscape is changing, Hong Kong is tightening up over matters such as tax transparency and avoidance."

One recent development of significance was the finalisation of legislation covering transfer pricing in 2018. Under the terms of the Inland Revenue (Amendment) (No. 6) Bill 2017, popularly known as the 'BEPS bill', Hong Kong's tax authorities have the power to ask some challenging questions that may lead companies to have significant tax adjustments and potential double taxation.

⁷ Inland Revenue Department, HKSAR Government



As a result, Hong Kong corporate taxpayers must now pay more attention to their transfer pricing policies than before, particularly with respect to their value chains and related party uses of intangibles as well as the arm's-length nature of the provision of intercompany services.

Companies must also keep up-to-date with other developments beyond Hong Kong that might affect the cost of their goods. For example, as a result of US-China trade tensions, exports of Chinese-made products into the US are subject to additional duties ranging from 7.5 percent to 25 percent, notes Daniel Hui, Partner, Greater Bay Area Tax Practice, at KPMG China.

As a result of both these tariffs and China's rising labour and other costs, many manufacturing companies either have or are considering relocating their factories out of China to other locations in Asia. These companies and those who are buying their goods or materials may need to consider whether the amount of their production being relocated is sufficient to have the origin of the product reclassified. Just moving some assembly operations to say Vietnam may not be enough, says Hui. "It has to amount to substantial transformation of inputs," he adds. "A move that only affects labour and other direct costs may not be enough."

Regional treasury hub

Despite moves to internationalise the renminbi, transferring money out of Mainland China can be challenging, so having a corporate treasury centre (CTC) in Hong Kong can help businesses navigate the complexities.

In fact, Hong Kong is the world's largest offshore renminbi market.⁸ This is due to a variety of cross-border portfolio flow channels that enable overseas investors to access capital markets on the Mainland. Besides having the deepest renminbi liquidity pool outside Mainland China, over 70 percent of the world's renminbi commercial payments are settled through Hong Kong with renminbi Real Time Gross Settlement system. As an important renminbi financing centre, Hong Kong has bond issuers ranging from the Ministry of Finance of the People's Republic of China to global financial institutions and corporates.

What is more, when doing business in Southeast Asia, where many sourcing operations are taking place, Hong Kong enjoys strong links to the region owing to its automated global payment platforms and does not apply any exchange controls. Hence there is no restriction on repatriation of capital, profits, royalties and fees. Cash pooling is permitted for resident and non-resident entities and interests are not subject to withholding tax. Qualifying CTCs enjoy a concessionary tax rate of 8.25 percent, that is, half of the normal Profits Tax rate, on the following qualifying profits: intra-group financing business, corporate treasury services and corporate treasury transactions.

Figure 5.3 Considerations for a regional treasury centre location



Financial Considerations

- Open Market
- Attractive Taxation
- Tariff- Free Port
- RMB Access
- Tax Incentives for Corporate Treasury Centres
- Financial Hub in Asia



Operational Considerations

- Geographic Proximity
- Human Capital
- Transportation Network
- International Access
- Telecommunication
- Cost of Living

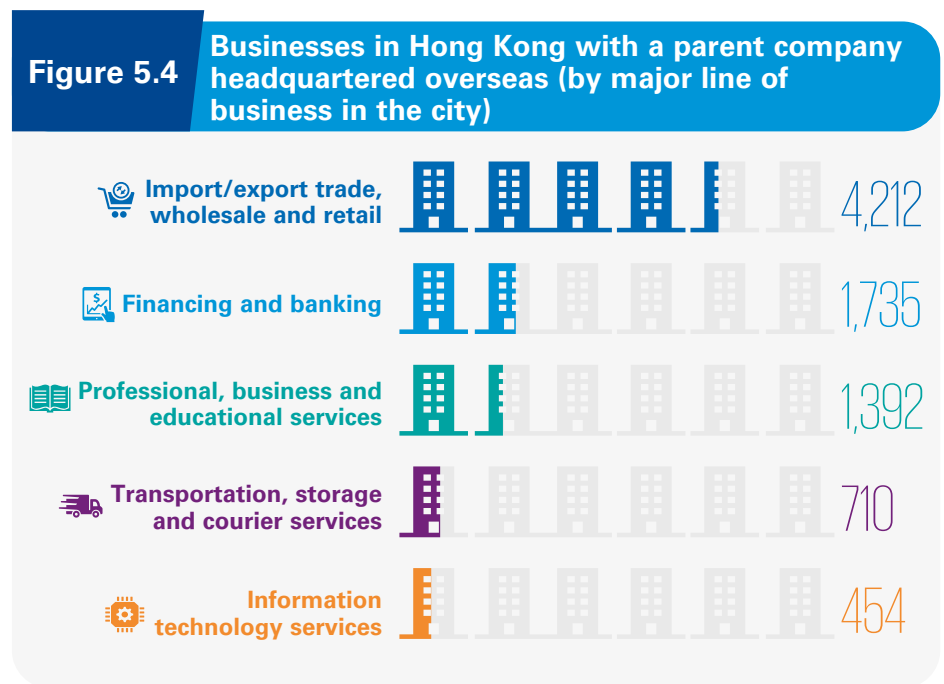
⁸ Hong Kong Monetary Authority

When it comes to banking, Terence Chiu, Head of Commercial Banking in Hong Kong for HSBC, believes digitalisation and data offer greater opportunities for businesses to better understand their clients, suppliers and buyers. “COVID-19 has drawn companies’ attention to the urgency of transforming the way they do business,” Chiu says. “They are now placing much more emphasis on digitalisation, including trade and payment.” This means sourcing and supply-chain companies with a presence in Hong Kong can leverage the city’s rapidly expanding use of fintech to serve the region.

Time-tested trading centre

On top of all this, Hong Kong’s more than 100 years as a trading centre have yielded a substantial cohort of skilled staff working in its trade and logistics industry. As of Q2 2020, over 320,000 people were employed in the city’s import/export, trade and wholesale industry.⁹ Tatjana Schaefer, Associate Director, Corporate Treasury Advisory, Risk Consulting, KPMG China, points out that the industry has a well-earned reputation for ethical behaviour and negligible corruption.

Behind Hong Kong’s many sourcing and trading firms stands an infrastructure of some of the most important trade shows in the world, shipping and logistics firms, trade financiers and insurers, major quality inspectors, and increasingly, businesses specialising in product development, production planning and quality control along the length of the supply chain.



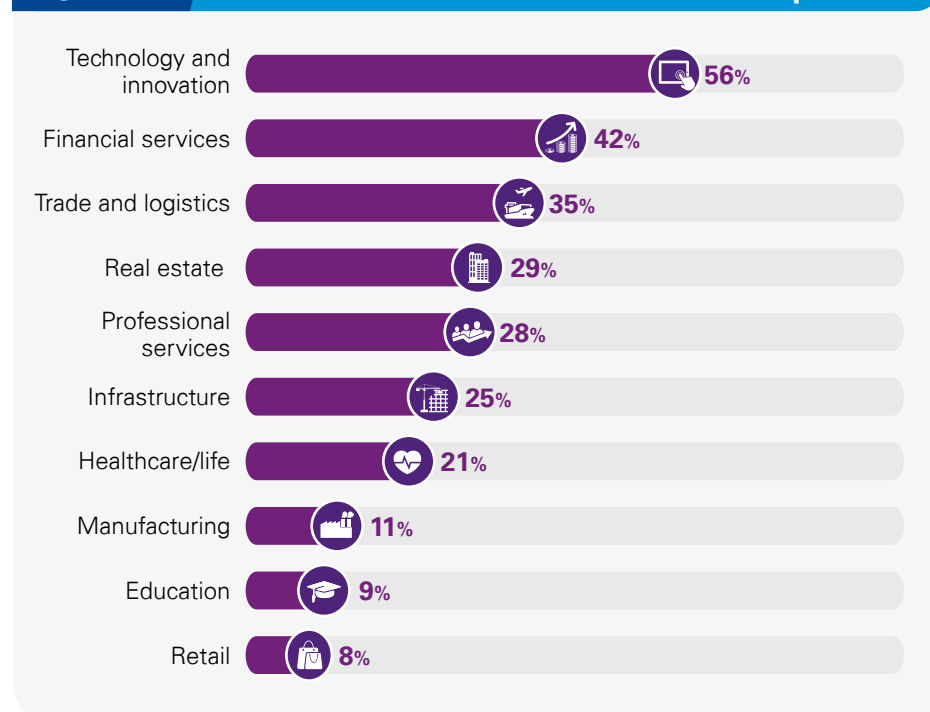
Source: Census and Statistics Department, HKSAR Government

Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel (HKRITA) established and funded by the government, says all the ingredients for successful sourcing and supply-chain activity are found in Hong Kong. HKRITA helps textile and fashion businesses apply innovative research results and advanced technologies for enhancing manufacturing and servicing activities. Keh cites speed, accuracy, profitability and sustainability as paramount.

⁹ Census and Statistics Department, HKSAR Government

“These determine how long you will be around and how acceptable you will be for your customer,” Keh explains. “These are bread-and-butter things we do in Hong Kong. Very few places in the world can deal with all these things under one roof.”

Figure 5.5 Sectors to benefit most from GBA development



Source: KPMG GBA survey analysis 2020

In support of this optimism, a KPMG survey of senior executives in the Greater Bay Area found that trade and logistics is one of the top three sectors expected to benefit from GBA development.¹⁰ It placed third behind only technology and innovation and financial services, following ‘top three’ showings in the previous two years of the annual survey.

Japanese toy manufacturer Bandai Namco offers a textbook example of Hong Kong’s appeal. The China market now accounts for 30 percent of Bandai’s consumer spend with 70 percent of manufacturing done in Mainland China and the rest in Japan. As the company looks to diversify operations in Southeast Asia, it regards Hong Kong as a trading and finance hub where the city’s international mindset and expertise serve its business the best. Mark Yim, Bandai Logipal’s Deputy General Manager in Hong Kong, says, “We expect to see an increase in e-commerce from our hub in Hong Kong that covers Thailand, Taiwan and Singapore.”

¹⁰ Keys to success in the Greater Bay Area, KPMG report, January 2020

Hong Kong's intellectual property regime



Shirley Fu, Partner, and **Bessie Chow**, Managing Associate,
SF Lawyers in association with KPMG Law

Intellectual property (IP) comprises all the intangible assets that are valuable in enhancing competitiveness and so income for businesses. It is crucial to secure protection of IP when internationalising business.

Hong Kong has a well-established legal system and a world-class IP regime for protecting all forms of IP which is generally considered to be one of the most thorough in Asia. As a special administrative region, Hong Kong's IP regime is independent of that of Mainland China. Our Basic Law provides, among other things, that Hong Kong shall on its own maintain a modern regime to protect achievements in scientific and technological research, patents, discoveries and inventions, as well as achievements and the lawful rights and interests of authors in their literary and artistic creation (Articles 139 and 140).

In view of this framework, Hong Kong recognises the following international treaties, conventions and agreements which set out the global standards, requirements and obligations for different types of IP right protection:

- the Paris Convention for the Protection of Industrial Property;
- the Berne Convention for the Protection of Literary and Artistic Works;
- the Universal Copyright Convention;
- the Nice Agreement concerning

the International Classification of Goods and Services for the purposes of the Registration of Marks;

- the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of Their Phonograms;
- the Patent Cooperation Treaty;
- the Convention establishing the World Intellectual Property Organisation ("WIPO");
- the WIPO Copyright Treaty; and
- the WIPO Performances and Phonograms Treaty.

Aligning with global standards, local Hong Kong laws protect the following IP rights:

- patent;
- copyright;
- trademark;
- design;
- plant variety;
- layout-design of integrated circuit; and
- trade secret.

Except for copyright, layout-design of integrated circuit and trade secret, registration is required for effective protection of the other IP rights as listed above. Hong Kong has a highly

efficient registration system for patent, trademark, design and plant variety run by the Intellectual Property Department.

In addition to Hong Kong's sound legal framework, its Customs and Excise Department has been vigorously enforcing the criminal aspects of infringement of trademarks and copyright and complaints alleging false trade descriptions, either from their own initiative or under the requests of right holders. IP right holders may take action against infringers by way of alternative dispute resolution methods, such as mediation and arbitration and/or commencing civil proceedings via the well-established court system. There are also a pool of IP consultants and legal professionals to assist businesses in registering and enforcing their IP rights.

Certifying quality in a dynamic world

Christy Chan

Director, Consumer & Retail
SGS Hong Kong



SGS delivers inspection, testing and certification services, and its history in Hong Kong tracks that of the city's blossoming lines of business – from 1959, when the world's biggest textile and light industry manufacturers were in operation, to today, when financial and trade services are its claim to fame.

Headquartered in Switzerland, SGS operates more than 2,600 offices globally with more than 89,000 employees. Some 1,000 of those staff are Based in Hong Kong 600 of whom are focused on consumer-related products. Another 15,000 people are employed in Mainland China.

The investment signals the importance of Hong Kong as the company's seat of operations for the region. "China is still growing as the most important production base in the world," says Christy Chan, Director of Consumer and Retail for SGS Hong Kong. "But so are other parts of Asia. We're currently expanding our teams in Vietnam, Indonesia and Cambodia."

The changes in Hong Kong's economy over the decades in which the city became a heavyweight in a variety of industries has brought benefits, Chan says. "Hong Kong's sourcing ecosystem is rich in inherited experience," she explains. "Even before COVID-19, being agile and resilient was part of our DNA."

Going well beyond its original services, SGS in Hong Kong now works with companies to find supply-chain solutions through data platform

strategies and analytics architecture. Long a company that primarily worked in the business-to-business (B2B) space, SGS offers business-to-consumer (B2C) services as well. Its Independently Checked Mark (ICM) for example, uses QR codes that brands and platforms can in turn deploy to communicate directly with consumers on their quality commitment.

Most recently, the company has been evolving with developments in China and Asia as a whole. "We're transforming ourselves from task-driven practical sourcing activities to a value-driven sourcing servicing model," she explains.

"We can no longer be judged by the volume of what we do, but by the value we create or co-create with the rest of the partners we work with along their entire supply chains."

Chan envisions a future with more collaborations and interdisciplinary learning between companies and across industries. "Boundaries are going to become ever more blurred," she says. "Having to embrace everything from virtual design to omnichannel modelling, the sourcing agenda has never been as complex and comprehensive as what we are seeing now."

Witnessing material shifts

Among the trends that SGS sees are major shifts in materials and processes. "New materials is a substantial area of change," says Chan, noting recycling solutions have garnered higher interest. "Popular

areas include 'preferred materials', which are those that contribute to sustainability, such as 'vegan' leather."

Demand for sustainability is also pushing companies to explore better, higher-quality materials that last longer, which in turn is putting pressure on suppliers to be able to guarantee and verify the origins of inputs.

For digitizing our services, Chan cites a new SGS service called Digicomply as helping companies monitor trends across their supply chains while tackling vulnerabilities. As a regulatory intelligence network, Digicomply is intended to make sure companies meet government regulations as well as industry safety and quality standards for food, cosmetics and healthcare products.

Services like this, Chan adds, "are helping to drive the move to more transparent supply chains that are going to be demanded in the future". As transparency depends on a commitment to integrity, Hong Kong's long-held reputation for turning out reliable products is significant.

"One of Hong Kong's core assets is the integrity of staff," Chan says. "We never have to worry about their ethics in our dealings and partnerships with global partners."

"We see Hong Kong as leading the way in integrity," she adds. "It is still very much a trusted hub, a place where companies and consumers can do business with complete confidence."

Government supporting industry



The government has launched a wide range of measures aimed at boosting innovation across the Hong Kong economy, emphasising the development of new products and services for the city’s traditionally strong sectors: trade, finance and professional services.

Innovation and technology development efforts have intensified in several areas like increasing resources for R&D; pooling together technology talent; providing investment funding; opening up government data; providing technological research infrastructure; and enhancing procurement arrangements.

In particular, the Innovation and Technology Fund (ITF) was established to increase the added value, productivity and competitiveness of Hong Kong companies by upgrading their technological level and introducing innovative ideas.

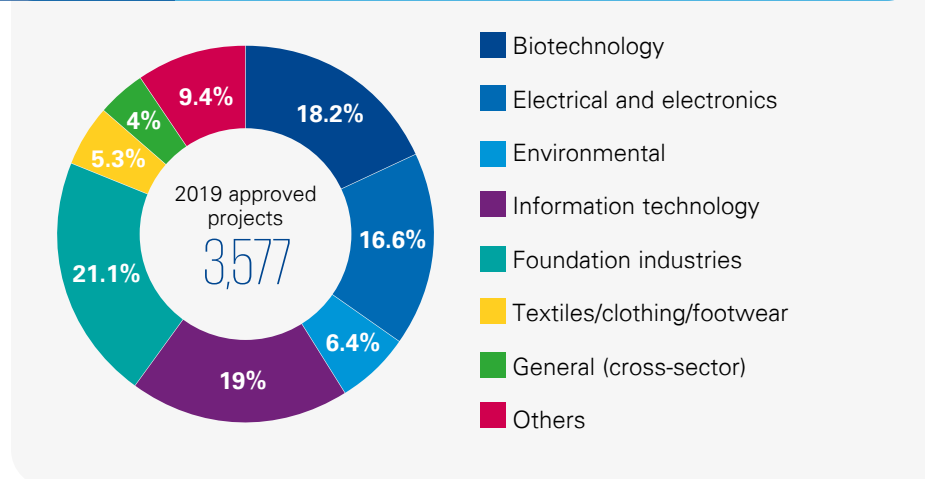
The Technology Voucher Programme (TVP) was launched under the ITF in 2016 to encourage local enterprises to use technological services and solutions to improve productivity or upgrade their business processes. Initially, funding for each eligible applicant was two-thirds of a company’s spending, up to a limit of HKD 400,000. In April 2020 that was raised to three-quarters, with a maximum pay-out of HKD 600,000.¹¹

Aimed at all types of businesses, including import and export-related firms, the funding schemes have included resource-planning solutions, and systems relating to document management, mobile access, electronic inventory, point-of-sales as well as electronic procurement management.

Another key programme is the Enterprise Support Scheme, administered by the Innovation and Technology Commission. This initiative is meant to encourage private companies to invest in R&D. Offering up to HKD 10 million on a dollar-for-dollar matching basis, funding is available to businesses incorporated and registered in Hong Kong, subject to approval by a vetting panel of innovation and technology experts.¹²

In 2020 the government injected an extra HKD 2 billion into the city’s ITF to support enterprises in their R&D and adoption of technology, and launched an HKD 345 million pilot subsidy scheme to encourage the logistics industry to use technology to enhance productivity.¹³

Figure 6.1 Approved Innovation & Technology Fund projects (by industry, 2019)

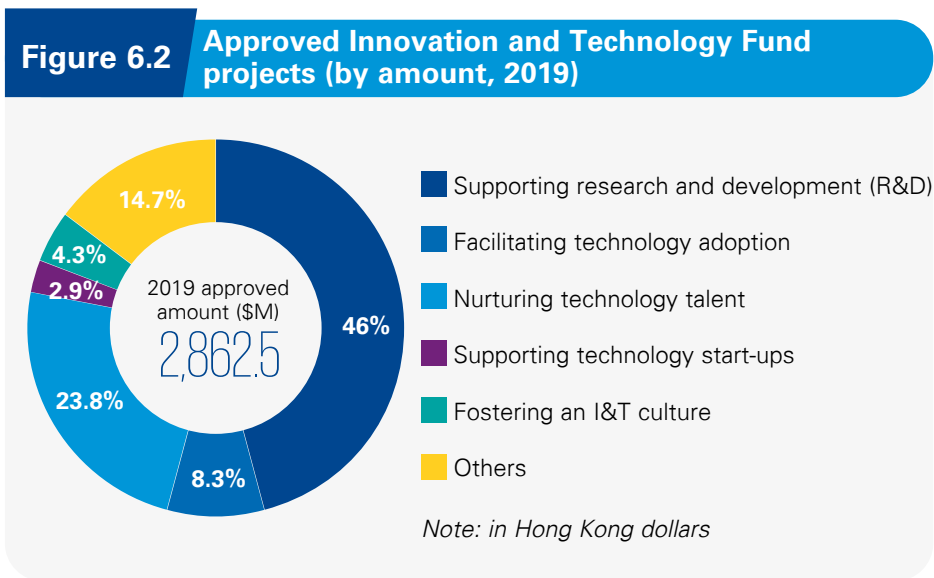


Source: Innovation and Technology Fund

¹¹ Innovation and Technology Fund, HKSAR Government, May 2020

¹² Innovation and Technology Fund, HKSAR Government, May 2020

¹³ 2020-2021 Budget, HKSAR Government, February 2020



Source: Innovation and Technology Fund

Other government measures include an HKD 3 billion earmarking to take forward phase two of the Hong Kong Science and Technology Park Expansion Programme as well as setting forth plans to explore the establishment of a third research cluster as part of InnoHK¹⁴, an initiative aiming to set up research laboratories in collaboration with world-renowned institutions and commercial entities.

Finally, the textile industry is a prime beneficiary of support through organisations like HKRITA, which administers projects that range from completely government-funded to 100 percent industry-sponsored. Funded by the ITF and hosted by the Hong Kong Polytechnic University, HKRITA’s recent projects have tackled waste technology, garment-to-garment recycling, dye removal, 3D shoe design, bras for mastectomy patients and an AI platform for sales and customer support. Some single-project allocations exceed HKD 10 million.

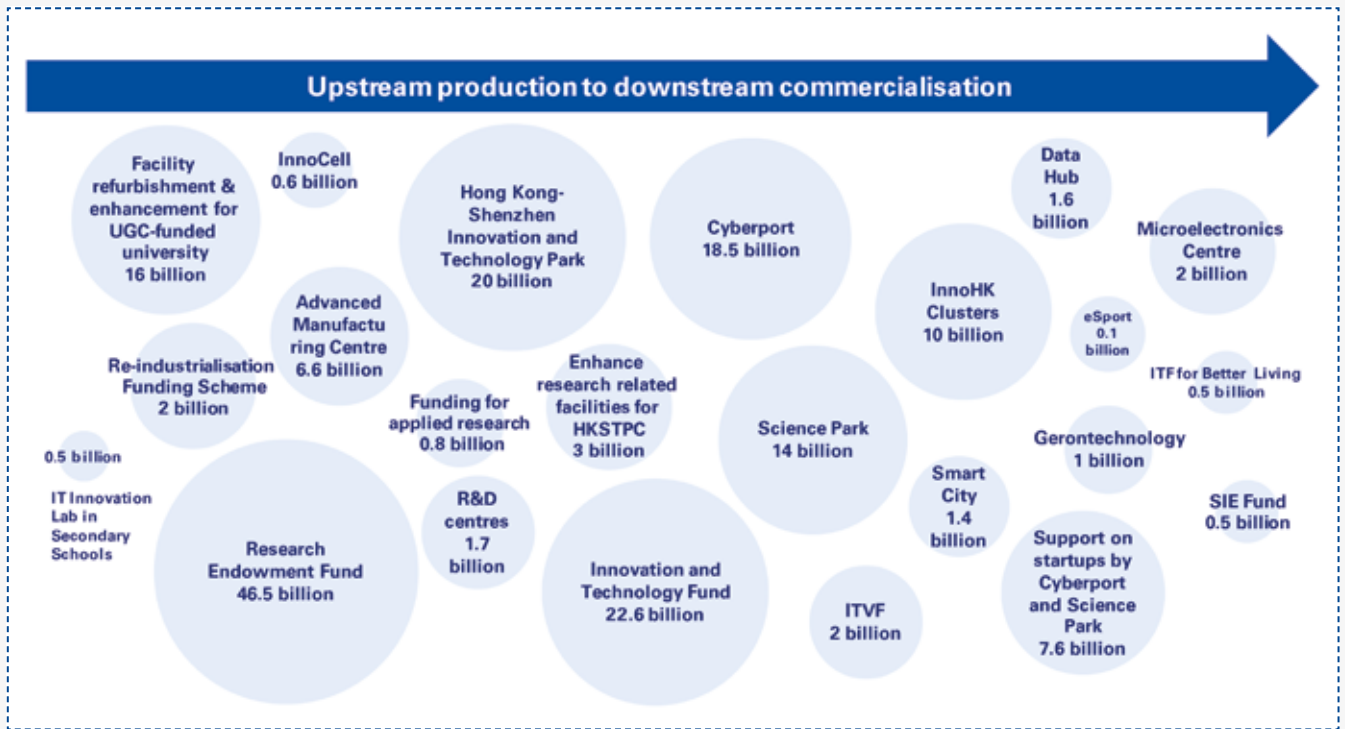
Apart from innovation and technologies, the SME Export Marketing Fund encourages SMEs to expand their markets beyond Hong Kong to engage in export promotion activities. Another is the Dedicated Fund on Branding, Upgrading and Domestic Sales to help Hong Kong companies seize economic opportunities and boost their competitiveness. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) with substantive business operations in Hong Kong are eligible to apply. The fund targets projects that help Hong Kong enterprises explore and develop markets that have signed free trade agreements with Hong Kong through branding, upgrading operations and promoting sales.¹⁵

¹⁴ Two InnoHK research clusters have been set up in the Science Park to develop Hong Kong as a hub for global research collaboration: Health@InnoHK focusing on healthcare technologies and AIR@InnoHK focusing on artificial intelligence and robotics technologies.

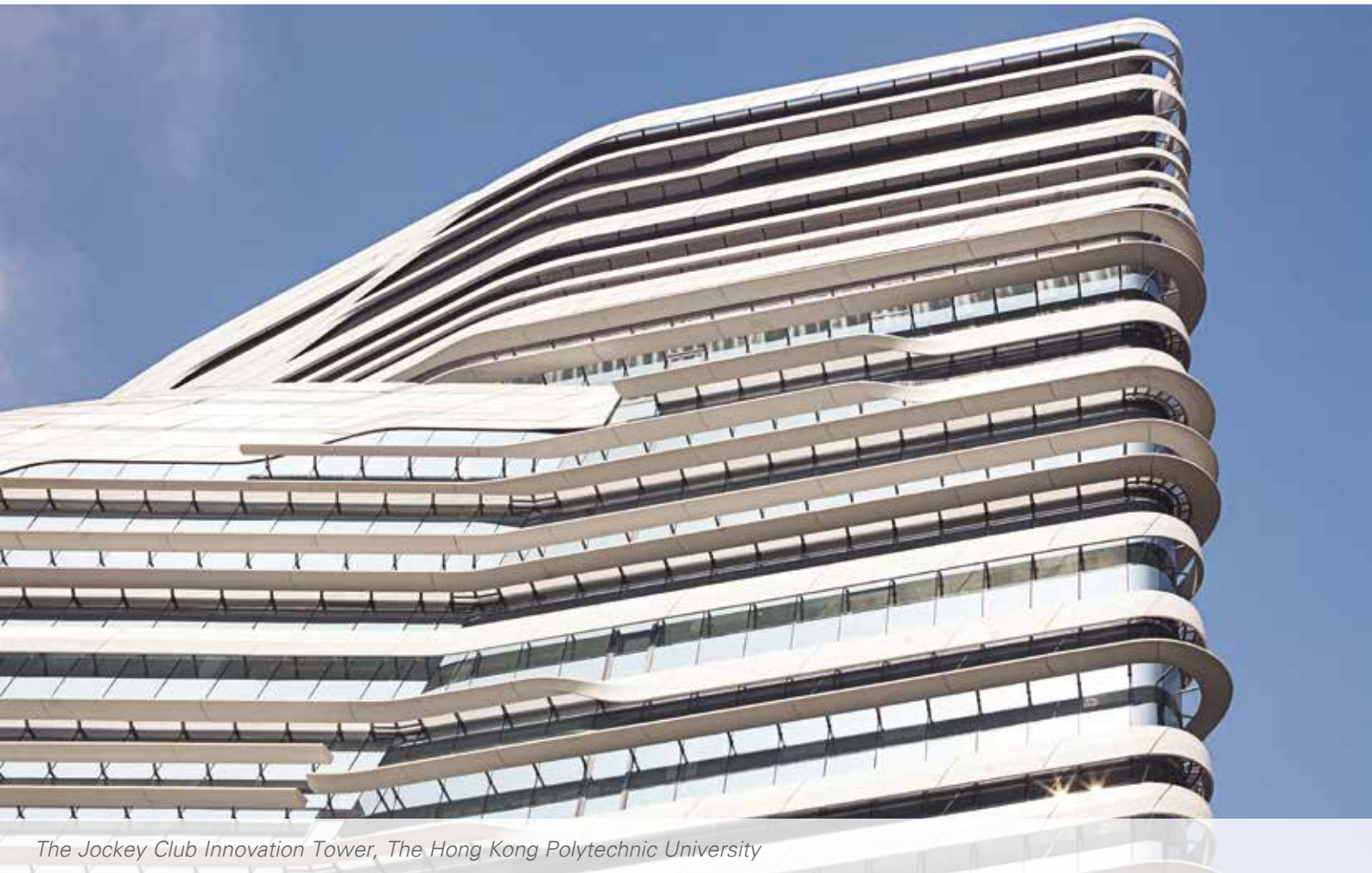
¹⁵ Hong Kong Productivity Council

Figure 6.3 Government funding to develop innovation and technology by value stream

Government support to develop innovation and technology (FY1999 – 2020) (in Hong Kong Dollar)



Source: The Hong Kong Government budget, Finance committee paper, Our Hong Kong Foundation, KPMG analysis



The Jockey Club Innovation Tower, The Hong Kong Polytechnic University

Consumers going digital



3DNA image

Hong Kong is a city that readily embraces digital tools, evident in the eager use of e-commerce and platforms that reach consumers online. Especially when more people seek to limit their outings and practice social distancing, businesses are ramping up their efforts to adapt and seek ways to expand.

Transformation explained

After COVID-19, a new reality emerged about consumers: they are more digitally minded than before and embrace the ease with which they can interact with organisations through online and other channels.¹⁶ Our analysis reveals the key purchase drivers to be value for money, ease of buying and trust in the brand. These findings indicate organisations must focus on digital enablement to reach this next generation of technologically savvy consumers.

To enhance the customer experience, companies are drawing on AI to add services such as smart chatbots, search processes and virtual 3D fitting. These functions can improve the ability of companies to make customers happier and reduce the likelihood of products being returned. At the other end, back-office software is improving and accelerating buying, payment, shipment and tracking.

Figure 7.1 Seven types of consumer commerce businesses will succeed in the future

The word 'retail' is likely to become redundant and be replaced by 'consumer commerce'. Seven types of business models will emerge as winners going forward:

- 1 Platform businesses are the go-to-market channels for B2B and B2C markets
- 2 Multinational retailers will transform into platform businesses, grow via M&A
- 3 National heroes will focus on cross-border partnerships to create synergies and scale
- 4 Value-based retailers (discounters) will evolve their online value proposition
- 5 Smaller country focused brands offer true expertise and product
- 6 Category specialists with direct to consumer model will bypass traditional retailers
- 7 Independent/mutuals with growing online loyalty programs and rapid-response supply chain

Source: KPMG analysis

As consumers are changing their behaviour, it implies that businesses also need to adapt their sourcing practices.

In this new way of doing business, opportunities exist for integral supporting actors in the supply chain like banks, says David Harrity of HSBC. "Banks can create opportunities for themselves and aspiring supply-chain players by pioneering the use of digital data to simplify trade finance approval processes and support business transformation."

BuyHive is at the forefront of this transformation. The online platform allows companies to outsource their sourcing needs to qualified and experienced professionals who can gather information or act directly on their behalf. Many firms, especially smaller ones, are engaging with technology to enhance their sourcing efficiency, especially useful when it is not possible to attend trade shows in person.

¹⁶ Consumers and the new reality, KPMG report, July 2020

Weaving in digital acceleration

Walden Lam

Co-founder
Unspun



Unspun is a Hong Kong-headquartered denim maker that combines 3D scanning technology with robotics manufacturing to produce personalised jeans while minimising fabric waste in the process.

A pair of Unspun pants – made from organic and recycled cotton as well as recycled plastics by a 3D weaving machine – emits nearly a quarter less carbon than jeans made by convention means. The goal is to make jeans on demand with the smallest environmental impact yet the longest possible lifespan. The company's niche in the supply-chain ecosystem points to a promising direction in innovation.

Like many businesses, Unspun was hit hard by COVID-19. The company decided to introduce 3D scanning via mobile phone instead of requiring customers to come in for measurements. The move enabled people to scan themselves at home or wherever they could find a well-lit space. Now customers need only to download an app and create a 360-degree image of themselves.

“As our experience reveals, COVID-19 is accelerating the fashion industry's change to digital,” says Unspun Co-founder Walden Lam, whose start-up secured backing in its early days from the US National Science Foundation and the H&M Foundation among others.

The Hong Kong native describes the city as well-positioned to benefit from digital inroads and having “an opportunity to win” business because of the depth of 3D expertise locally.

Lam notes Hong Kong's top factory owners have invested heavily in industrial automation and efficient supply chains over the years, even if their operations are not all physically located in the city now.

“Hong Kong has a surprisingly deep network of 3D design technicians, supply-chain intermediaries and 3D-savvy manufacturers,” says Lam, whose innovative business launched in San Francisco in 2015.

Hong Kong became Unspun's other principal location in 2018 after it being taken in as an incubatee at Fabrica, a fashion and textiles incubator in the city run by The Mills, a former cotton spinner that converted to helping nurture start-ups working at the intersection of fashion and technology.

The future of fashion will be “made-to-order”, Lam adds, stating 3D will be paramount among three pillars of innovation, with industry automation and sustainability being the other two.

“3D will be the most critical in the short term due to the likely continuation of work-from-home arrangements and supply-chain disruptions.” In addition, Hong Kong's manufacturing know-how represents a major advantage when it comes to automating production and changes that inevitably arise in light of changing economic circumstances and innovation.

Eyeing future focus areas

As for sustainability, Lam sees vast potential for Hong Kong to boost

consumer awareness, industry preparedness and R&D investment. “We are seeing more and more brands and retailers working with us on our on-demand, supply-chain platform,” he notes.

He also sees growth potential in collaboration in general, particularly in Unspun's unique corner of the industry. “Historically, fashion designers in the art side of fashion did not work closely with those on the technical side,” says Lam. “There are often separate ecosystems for researchers and for designers.”

Looking ahead, Lam sees different global locations as having different strengths. He characterises the US as enjoying a deep talent pool of engineers and researchers, but a limited supply chain. Meanwhile, he sees Europe as home to the world's leading fashion brands and already established regulations on sustainability for the industry.

As for Hong Kong, its supply-chain expertise and access to manufacturing could pull everything together, Lam says.

This suggests the city is playing a significant role as greater international collaboration awaits all companies navigating the new normal.

“Many manufacturers have already made significant investment and have a lot of know-how, but they need to collaborate more, across industry silos and especially across geographies,” Lam says.

Digitalising the supply chain with barcodes

Anna Lin
Chief Executive
GS1 Hong Kong



GS1 Hong Kong, a branch of the global standards organisation best-known for its ubiquitous barcode, supports more than 8,000 corporate members from 20 industries in the city, including retail and consumer goods, healthcare, food and wine, apparel and footwear, and transport and logistics.

Its CEO, Anna Lin, states that enhanced value-added service and digital technologies will keep Hong Kong indispensable as a sourcing hub.

“Global digital trade is the future,” says Lin. “The next step for Hong Kong is digitalising from one end to the other, throughout the supply chains across different entities and borders. Standardisation and digitalisation play a key role here to connect the dots along the local and global supply chain”

Interoperability and data intelligence help companies realise efficiencies and derive insights across almost the entire spectrum of their operations, Lin notes, with the expanding use of technologies based around global barcodes, like GS1 GTIN, sensors and radio frequency identification (RFID) allowing companies to track what happens to products at every stage along the supply chain.

This can help them identify and then deal with bottlenecks, facilitate information sharing, reduce spoilage and wastage, enhance visibility, and in the process diminish their environmental impact. It can also allow companies to have better connections with their partners and customers.

By supporting digitalisation in these ways, GS1 Hong Kong contributes immeasurably to the supply-chain ecosystem. Its mobile app, for instance, allows consumers to scan a product’s barcode or QR code with mobile phone, to ensure the authenticity of products

and access up-to-the-minute traceability information, enhancing consumer trust and protecting brands.

GS1 also organises events throughout the year to facilitate industry networking with a diverse mix of brands, software solutions and logistics providers. In addition, it makes available an in-house solutions team that helps companies customise their products and services for the Hong Kong market.

As Lin sees it, Hong Kong sits in an advantageous location from which to facilitate e-commerce platforms and manage direct sourcing operations in Asia. She points to the city’s logistics infrastructure as an asset that helps set the city apart.

GS1 Hong Kong views the impact that e-commerce and other digital technologies are having on redefining the supply chain as profound. “Platforms connecting both companies and consumers directly to suppliers are cutting out intermediaries,” Lin says. For this reason, now is an opportune moment to implement digital transformation.

Yet more developments affecting sourcing are underway, including Mainland China’s growth and the migration of various trade-related services over the border.

Alibaba, for example, is expanding its warehousing and logistics interests, Lin notes, and through its affiliate company, Ant Financial, it can offer financing to the companies that use its range of C2C web platforms.

Other forms of technology are also reducing the need for traditional sourcing businesses, Lin adds. Digital product design and sample tools mean buyers can interact with manufacturers instantly

at any distance, without the need for physical goods to be shipped back and forth.

Even warehousing can be monitored and controlled by companies a continent away thanks to remote sensors, lowering the need for an on-the-ground presence where goods are stored.

Smart sourcing coming soon

“The future of sourcing will become ‘smart-sourcing’: moving from reactive to more predictive management,” says Lin. “Business will use technologies like IoT, AI, cloud and self-learning robots to automate data capturing and provide real-time actionable insights. 5G network will propel this change, when all machines/communications will be IoT-connected, approaching ‘supply chain 4.0’.”

Furthermore, Hong Kong can offer a stellar reputation for integrity built up over decades. That means assurances that data in the city will be securely protected, that its legal system will remain impartial, and that its business framework, including its financial institutions, will continue to offer a level playing field for all enterprises.

“The next step is trade facilitation using Hong Kong’s reputation as a trusted supplier,” says Lin. “Hong Kong is known for its integrity, efficiency and connectivity. These have been and should be the core values it offers — something in its blood.”

Business must also ensure visibility, traceability and information transparency to preserve Hong Kong as a trusted city with trusted suppliers. Global standard is vital to enable different stakeholders along the supply chain to identify, capture and exchange data easily and connect with each other, fostering trust towards Hong Kong business community.

Made in Hong Kong 2.0

**Mass Luciano and
Antoni d'Esterre**
Co-founders
MASSBRANDED



MASSBRANDED, an online-only men's streetwear fashion maker founded in 2015, is but one of countless beneficiaries of Hong Kong's fertile ecosystem of suppliers and talent now looking to make their name in the global fashion market.

Thanks to the presence of buying offices for clothing retailers at all price points from around the world, Hong Kong has a ripe support network for businesses in the fashion industry, says company co-founder Mass Luciano. "From Ralph Lauren at the high end to mass-market brands like Marks and Spencer, every category of clothing maker is present here."

Working out of offices in Kwun Tong, formerly an industrial area in the east of Kowloon, the company releases its annual collection of between 12 and 16 designs each October. Its production runs number about 50 units for each design. Once it is clear which items are selling well, Luciano and co-founder d'Esterre Darby-Dowman release additional items every six to eight weeks.

The company sources almost all of its fabrics, trimmings and other materials locally in Sham Shui Po, an area of Kowloon long famous for being home to hundreds of fabric, trimming and clothing accessory suppliers.

Until recently, Luciano and d'Esterre Darby-Dowman made all their clothes in Hong Kong too, fully capitalising on the more than 500 small clothes-makers that still dot the city, most of them making samples for large clothing

companies. A rise in order sizes, however, has meant they now also use manufacturers in Guangzhou, in neighbouring Guangdong province.

Luciano describes the quality of Hong Kong manufacturers as excellent, with production time short and minimum orders low. All this makes it possible to do the small runs of high-end items, often using interesting materials, that form the basis of MASSBRANDED's collections.

Supportive ecosystem

Support for new and young fashion businesses is strong in Hong Kong, Luciano adds. "From freelance graphic artists to independent sourcing specialists, there's a lot of talent here to provide all the services we need."

A major early boost for the company came in 2016, when it reached the finals of the city's Creative Call Out competition for emerging young fashion entrepreneurs. The competition was organised by Lane Crawford, a high-end fashion retailer.

Then, in 2018, the company was invited to become part of the Hong Kong Design Centre's Fashion Incubation Programme. Through the scheme, up-and-coming fashion brands get access to studio space, co-creation and collaboration projects, marketing and promotion support, mentorship and the use of fashion-related databases and other technology resources.

The company relies on social media and word of mouth for most of its marketing and sales. "We've got a big

Instagram following," says Luciano. "That gives us direct access to our customers, and lets us not just sell but also tell a story about our products." About half its sales are to the US and Canada, with the rest distributed across the UK, Europe, Australia and Asia.

Though still a small company, MASSBRANDED handles sustainability in its own considered way. "We try to make clothes of a superior quality," Luciano explains. "By asking what the purpose is of each item, we try to make it something you want to keep, not one that its wearer will want to throw away."

The pair sees an opportunity for Hong Kong to build on its strong ecosystem, pointing to the setting up of labs at places like The Mills or the Fashion Incubation Programme. "The craftsmanship has always been here," Luciano says. "Hong Kong can start to think about reviving its garment manufacturing industry."

In a similar vein, the expanding use of standards throughout supply chains is allowing for a far greater use of remote monitoring. This allows companies to not just track where their goods and their inputs are located at any point in time, but also to ensure their origin and treatment during the manufacturing process and to monitor the conditions in which they are transported and stored.

Entities like GS1 Hong Kong, a branch of the global standards organisation best known for its ubiquitous barcode, help companies ensure visibility across the supply chain from where goods are manufactured to the point of delivery to the end customer and then in making sure all processes are rendered as efficiently as possible.

Linking digital to ESG

Companies in Hong Kong are putting sustainability top of mind, with businesses engaged in sourcing and supply-chain operations are paying closer attention to the ways in which their goods and services are generated, transported, sold and eventually disposed of.

Among organisations implementing environmental, social and governance (ESG) practices in Hong Kong, an ability to reduce costs is the key motivation, followed by a desire to stay competitive with other leading brands, and demand from customers.¹⁷



Source: KPMG analysis

ESG integration is not just desirable but essential, as evidenced by regulations in Hong Kong. A revised guide on ESG reporting applicable to firms listed on the Hong Kong Stock Exchange was published in December 2019, taking effect for financial years commencing on or after July 1, 2020.¹⁸

Companies engaged in sourcing and supply-chain operations are therefore seeking to take up sustainable processes throughout their business amid higher expectations that the people involved in production are treated well and work in acceptable conditions.

¹⁷ Future Hong Kong 2030, KPMG report, April 2020

¹⁸ Integrating ESG into your business, KPMG report, January 2020



With the emergence of digital supply chains, we are going to see far greater transparency and traceability which is pivotal to ESG.



Pat Woo
Head of Sustainable Finance, Hong Kong
KPMG China

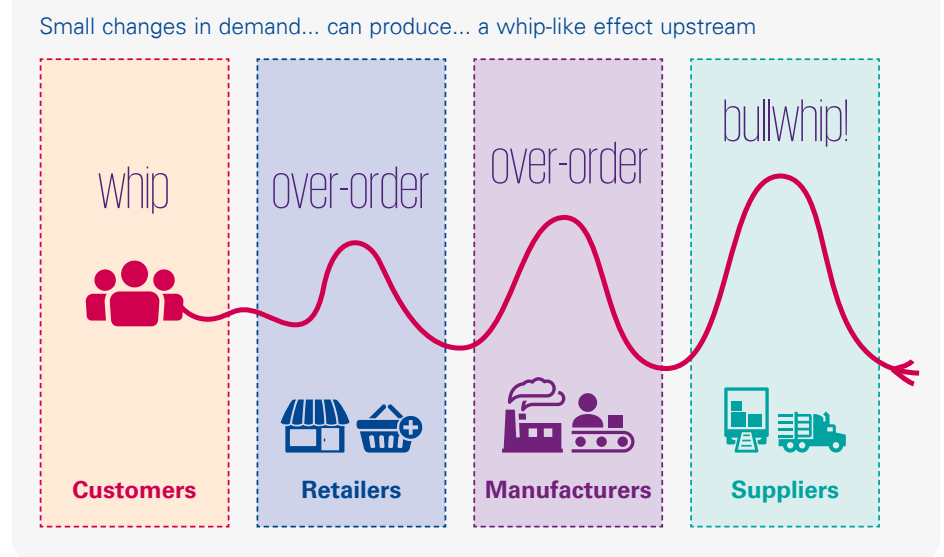


Pat Woo, Partner and Head of Sustainable Finance, Hong Kong, KPMG China, notes that many companies have signed up to international agreements committing them to decarbonise. “As their supply chains form a significant part of their emissions footprint, doing this will call for vendors and buyers working together and closer partnership relationships, particularly for major suppliers,” he says.

A demand driven supply chain without efficient communication or vision of the whole supply chain would result in the bullwhip effect, where a slight surge in demand from customers result in a disproportionate increase in orders received by the suppliers at the other end of the supply chain. The excess inventory and wastage are the by-product of this effect.

A pivotal point for ESG is the digitisation of supply chains to give better traceability and transparency, as well as enabling better prediction of demand to avoid over supply of products.

Figure 7.3 The bullwhip effect



Source: KPMG analysis

Citing Hong Kong’s deep pool of sourcing and supply-chain expertise, Woo says the city possesses the capability to apply new technologies in ways that can transform outmoded practices. “The data and knowledge for managing the supply chains of the future is here, though it will take a huge shift in mindset to adopt low-carbon, data-driven and demand-driven supply chains.” To reduce the amount of unsold inventory, Chain of Demand is a start-up which has developed a proprietary machine-learning model using AI and big data to help minimise inventory risk as well as predict and track consumer demand. Their core data science team are all based in Hong Kong.

Several Hong Kong entities are demonstrating initiatives in ESG. Redress, an environmental charity founded by Christina Dean, works to prevent and transform textile waste to further a circular economy and reduce fashion’s water, chemical and carbon footprints. Its Redress Design Award is billed as the largest sustainable fashion design competition on the planet, aiming to educate emerging fashion designers around the world about circular fashion.

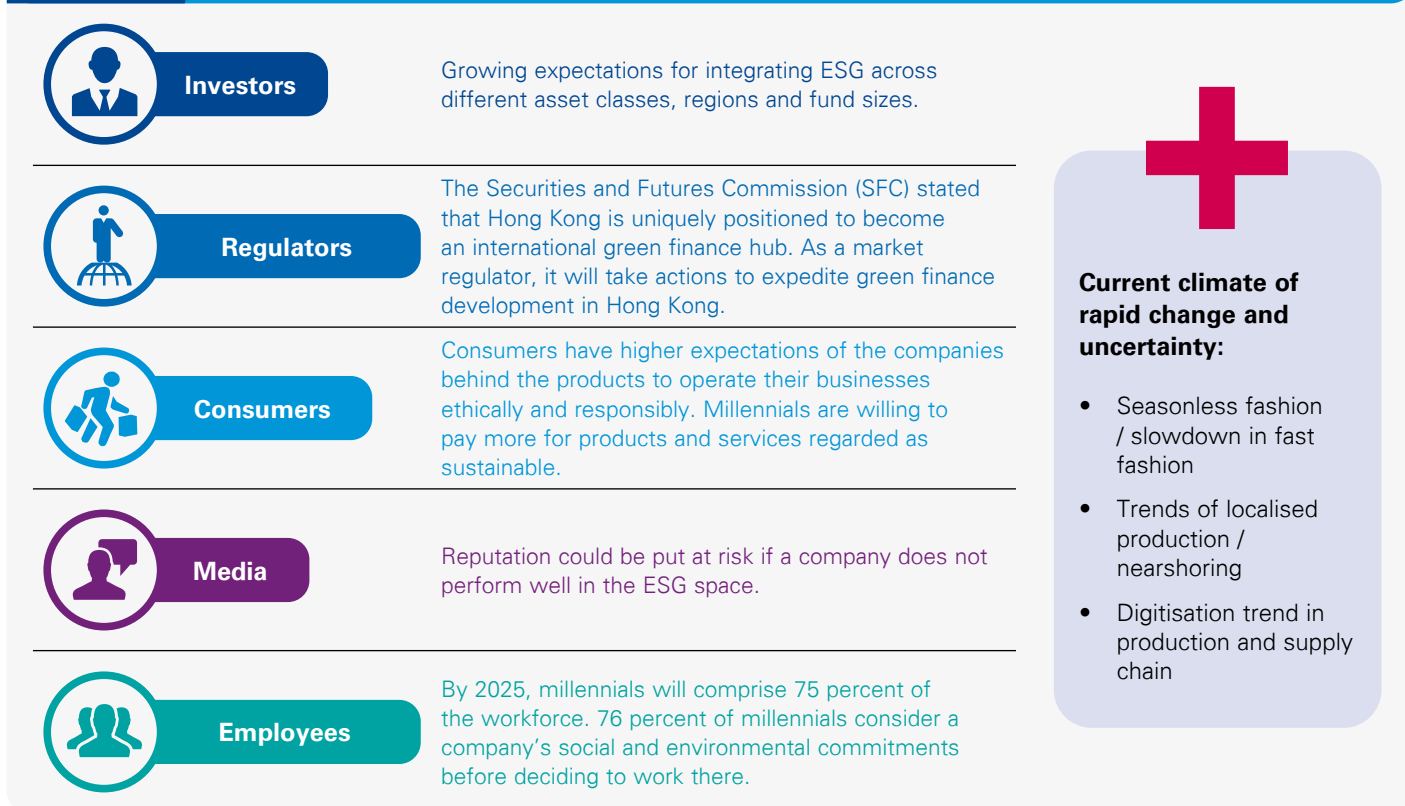
Inspired by Redress, the social impact upcycled fashion brand The R Collective engages a team of seasoned fashion professionals from design, sourcing, production, marketing, business and sustainability. The goal is to create the world’s best sustainable fashion from waste materials. In support of circular fashion, The R Collective bills itself as the first brand to use an independent third-party Upcycling Verification Program for the textile and footwear industry, by the testing company SGS.

In addition, HKRITA’s garment-to-garment recycling system launched in 2018 and remakes old clothes into new ones inside a 40-foot, glass-walled container. The HKD 5 million project features an automatic and fully functional mini-scale production line, and addresses the challenge of packaging all the recycling machines and system. Its anti-noise and dust-controlled design minimises disturbances and can be operated within community areas like shopping malls. Their deployment of an industrial-scale, waterless garment recycling, called the Billie System, has been in operation since September 2018 at the Novetex factory located in the New Territories in Hong Kong.

Meanwhile, The Good Fashion Fund in Hong Kong prides itself as an investment fund solely focused on implementing innovative sustainable fashion solutions. Launched in 2019 with an initial close equity investment of USD 13 million from Laudes Foundation, an Asia-based philanthropic organisation, and The Mills Fabrica, a Hong Kong-based business incubator, it links high-impact technologies to the textile and apparel production industry across Asia.

Another influential ESG player is the Sustainable Apparel Coalition (SAC), for which Anderson Lee of Hong Kong Non-Woven served on the global board of Directors, and now sits on the Asia Pacific Board. The global organisation has set up its Asian presence in Hong Kong and strives to produce no unnecessary environmental harm in the apparel, footwear and textiles industries. It comprises more than 250 member organisations spanning 35 countries with a combined annual revenue exceeding USD 750 billion.¹⁹ The SAC’s Higg Index helps the industry measure and rate the sustainability performance of companies and products.

Figure 7.4 Drivers towards sustainability and resilience



As ESG is an evolving topic globally, companies should stay abreast of the latest ESG developments, be they regulatory or voluntary. To move ESG from a distant issue to integrate it into business practices, it takes not only ongoing support from top management, but also needs a holistic system to make sure all ESG requirements are effectively in place. Only thus can businesses have a sustainable future in a sustainable world.

¹⁹ Sustainable Apparel Coalition

The Mills: spinning a vibrant new future



The Mills

The Mills is an ambitious scheme aimed at simultaneously inspiring technology-fuelled business innovation for Hong Kong's fashion industry and honouring its textile legacy.

A project of the Nan Fung Group, a former textiles manufacturer-turned-business conglomerate that now has interests in property, finance and other industries, it opened in December 2018 on the site of Nan Fung's last former factories in Tsuen Wan, a district in northwest Hong Kong,

Standing at its heart is Fabrica, a business incubator offering space, a lab, business support and investment for technology-based fashion, new materials and now food and agritech start-ups. By upgrading tech capacity in the supply-chain, Fabrica feeds knowledge to the industry about the intersection of technology and lifestyle ('techstyle'). This is highly useful for companies with global offices in Hong Kong to get acquainted with and understand the local ecosystem.

The incubation programme connects start-ups with the fashion and food industry in areas including materials and supply chain innovation. It lays the groundwork for start-ups to later provide their products and services to larger corporates.

Fabrica's customised support ranges from providing exposure opportunities to the companies through all sorts of events linking up with its network of manufacturers, brands and investors; and extending advisory help from strategy to finance, legal and marketing.

Unspun is a typical startup that Fabrica helps commercialise. Unspun aims to reduce global carbon emissions by at least 1 percent, by using automated, localised, and intentional manufacturing. (refer to Page 40)

Other incubatees include Origami Labs, which produces OFLO, a collaboration solution that brings frontline and offline teams together with connectivity and productivity tools. Their cloud platform provides desktop teams, control centres and management with unprecedented insight and control for decision making.

Training next-generation innovators

Alongside its work with young entrepreneurs, The Mills Fabrica partners with local and international educational institutions to foster business savvy in creative-industry start-ups. It offers help with putting together business plans, understanding pricing, maintaining company books,

and finding the best ways to direct creative urges.

"Collaboration with strong and visionary partners is the key to the success of our mission to foster Hong Kong's techstyle success," explains Vanessa Cheung, Founder of The Mills.

One example is its circular-economy work in garment-to-garment. Working with the Hong Kong Research Institute of Textiles and Apparel, the project transforms customers' garments into fiber and yarn that can be used to create new pieces of clothing.

"Fabrica advocates sustainability in all dimensions of its activities and outreach," Cheung says. "We help techstyle start-ups that are respectful of the environment and socially responsible grow into sustainable businesses so that they can contribute to making a better positive impact for the world."

Fabrica is mindful that the millennial population seeks out brands that match its aspirations. They want more flexible and accessible lifestyle brands than consumers in the past. In addition, health concerns are fuelling the market for techstyle wearable products.

Also, COVID-19 has called for resilience in supply chain where

trends of localised materials, digitised production and nearshoring are seen (Figure 8.1).

In particular, Fabrica has identified innovation opportunities across supply chain, retail, stakeholders and ecosystem that are helpful for the recovery of the apparel value chain.

Fabrica's research features there were more than 350 techstyle start-ups globally as of 2020; more than 60

of them are unicorns. Of these, 70 percent are involved in what Fabrica calls 'new retail experiences'. These focus on omnichannel such as SAAS solutions like sizing, video tagging for online commerce, hardware/software suites for better offline store digitalisation and technologies that encourage circular business models like post-consumer garment resale or recycling.

Fabrica says start-ups from Asia and the US together comprise 90 percent of unicorns. From 2015 to 2019, Fabrica's partners tripled their investment in start-ups, going from 20 to 75 deals.

The Mills' evolution from a cotton spinner to an ecosystem supporter for talented local entrepreneurs mirrors that of Hong Kong's deepening role in the sourcing landscape and its future of possibility.

Figure 7.5 Building resiliency in supply chains and Innovation opportunities exist across the value chain



Building resiliency in supply chain is key with localized materials, digitized production & nearshoring as enabling trends

Key Trend	Description	Enablers + Examples of Startups		
Localized materials	Source new or alternative materials in local markets with the help of material technology for production purpose.	Bio-based/ Synbio		Recycling
		MANGOMATERIALS™, huueo, Algalife	re:newcell, EVRNU	
Digitized production	Enhance productivity, efficiency and transparency of supply chain through digitization.	Automation/ Robotics	Blockchain	3D design
		SoftWear AUTOMATION, SEWBOT	TRUSTRACE, InfiniChains, TextileGenesis™	CLO, tg3d, BROWWEAR
Localized production/nearshoring	Shift production back to domestic markets or neighbouring regions to reduce risks and react to customer demand faster.	On-demand production	3D printing	
		UNMADE, unspun	P€, BODI.ME	VOODOO MANUFACTURING, MakerBot.



Innovation opportunities exist across the value chain

1 Build resiliency in Supply Chain	2 Digitization of Retail	3 Connect Stakeholders with empathy	4 Rebuild Wider Ecosystem with trust
<p>Localized materials</p> <p>MANGOMATERIALS™ re:newcell, AMSiK, spiBer, EVRNU, Algalife, huueo.</p>	<p>Optimize inventory management</p> <p>CHAIN OF DEMAND, neuritech, INTURN™, Vestiaire Collective, Near™, reGAIN app, StyleLend</p>	<p>Employee support</p> <p>G RIVER SYSTEMS, MOTIF, coursera, Udemy, eox, Inspectorio</p>	<p>ESG assessment</p> <p>Sedex, amfori, Sustainable Apparel Coalition, WRAP, SOCIAL & LABOR CONVERGENCE</p>
<p>Digitized production</p> <p>SoftWear, TRUSTRACE, CLO, SEWBOT, InfiniChains, TextileGenesis™, tg3d, BROWWEAR</p>	<p>Digitized retail</p> <p>HAFTA HAVE, FUTUREPROOF RETAIL, VOO, THE FABRICANT, ORDRE, STYLISTICS, syte</p>	<p>Supplier-brand management</p> <p>Inspectorio, bext, supplyCompass, TextileGenesis™</p>	<p>Organizational support</p> <p>HKEX STAGE, HKGFA, GOOD FASHION FUND, PRI</p>
<p>Localized production/nearshoring</p> <p>UNMADE, unspun, P€, BODI.ME</p>	<p>GOXIP, SMARTZER.</p>		

Source: COVID19: Reconstructing The Apparel Value Chain — Towards Resilience And Digitization Report, The Mills Fabrica

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The Mills

The speed of change is a call to action for the entire industry to invest in their employees in order to upskill and reskill all the people involved. The industry has voiced out the need for educational institutions to nurture the next generation workforce and to collaborate with industry to devise new learning and ways for continuous development across businesses to form our future-ready workforce.

With an increase in focus on ESG, sustainability, data science, 3D product development, digitising, blockchain and AI, etc., new ways of a better delivery mechanism for education are needed to equip the workforce with digital and transformational skills needed to cope with the challenges of Industry 4.0.

There is a growing number of education platforms across China and the rest of Asia to serve industries with both online and blended courses. One of them is MOTIF which was established in 2018 to address the skills gap in the apparel industry. It is a social platform for eLearning, provided by leading industry practitioners for industry professionals. Based in Hong Kong, it provides a blend of courses for corporates and individuals at different stages of the value chain. This flexible model with a mixture of courses is evolving but will most likely be the way forward for professional development in this new normal.

“The apparel industry, like other industries, has a serious future of work problem. We have a declining pipeline of core skills as industry insiders retire, made worse by an urgent need for next generation skills as our industry plays catch up with new imperatives such as digitisation and sustainability.” notes Catherine Cole, CEO of MOTIF. “This is a time to reimagine and reinvent processes, roles and career paths. This responsibility does not lie simply with department heads or HR, it needs to be driven at board level, while employees themselves should also proactively seek to continuously enhance their skills to stay relevant.”

In this new digital era, it is going to take a more collaborative approach between all stakeholders in the ecosystem to move the dial and to bridge the skills gap with new thinking along with new learning experiences including the likes of virtual team collaboration to support industry as well as understanding the changing consumer behaviours.



Delving into data for enriching research

Edwin Keh

CEO

Hong Kong Research Institute of Textiles and Apparel



Based at Hong Kong Polytechnic University and funded by the government, the Hong Kong Research Institute of Textiles and Apparel, also known as HKRITA, plays a pivotal role helping textile and fashion businesses apply research and technology to raise the value of their manufacturing and servicing activities.

HKRITA works with companies ranging from mills and manufacturers to brands and retailers. The team embarks on 20 to 30 new projects annually in Hong Kong and around the world with different partners. Since its founding in 2006, HKRITA has completed more than 200 projects.

Its modus operandi is straightforward, providing solutions to companies' most pressing needs. HKRITA manages the intellectual property flowing from the research for the benefit of the overall community.

As technologies proliferate and e-commerce requires suppliers to swiftly produce a wide variety of items, innovative data-led approaches and new skill sets are in high demand.

"In e-commerce, you want one unit of many different things and they have to be shipped consolidated," says HKRITA CEO Edwin Keh. "The order of magnitude of fulfilment complexity and 'last mile' is completely different." Those who can develop algorithms and software fill a valuable niche, which is where HKRITA has positioned itself.

As for measuring success, Keh names four factors for any sourcing or

supply-chain activity: speed, accuracy, profitability and sustainability. "These determine how long you will be around and how acceptable you will be for your customer," he explains. "These are bread-and-butter things we do in Hong Kong. Very few places in the world can deal with all these things under one roof."

Attracting talent is paramount

Straddling Mainland China and southeast Asia, Hong Kong is a magnet, Keh says, for "creative, smart, ambitious young people who want to build a career". But he believes it is crucial that a supportive infrastructure exist to develop talent, wherever they come from. "That would mean a meaningful career track for them and affordable housing and that we continue to have great communications and transportation."

He expresses optimism, citing the example of the denim start-up Unspun, which uses 3D scanning and robotics technology to create personalised jeans with almost no textile waste. The start-up was founded by engineers from Stanford University who left Silicon Valley for Hong Kong, Keh says, "because it's faster to get work done here".

Another point of attraction is a growing interest in sustainability. Keh notes HKRITA has devoted considerable time and resources pushing carbon-positive solutions, waterless technologies, hydrothermal separation of post-consumer materials, as well as chemical and biological recycling

technologies. Describing the objective as trying to make textiles and apparel a better industry, he adds: "We want to leave the soil richer, the air cleaner, the community enriched, and lives enhanced."

HKRITA tackles several projects involving post-consumer recycling. One operated by local textiles firm Novetex uses upcycling technology developed at the institute to convert discarded clothes and textiles fibres and yarns that otherwise would be destined for landfill. These recycled yarns can then be exported for use in new garment products.

Another is an experimental direct-to-consumer retail business in which old clothes are used to make new ones on the spot. Keh says the new business model is also an educational tool to help consumers understand that the materials that make up their garment can be long-lasting. "Fashion is fast, but the materials are robust," Keh says.

By championing cutting-edge applications, HKRITA seeks results that give rise to industry advantage, enable sustainability, support Industry 4.0 solutions and create social benefits. He and others in the sourcing world intend for their array of industrial and commercial solutions to be likewise nimble and durable.

Weaving in generations of textile expertise

Anderson Lee

Business Director
Hong Kong Non-Woven



Founded in 1969, Hong Kong Non-Woven (HKNW), a leading fiberfill and insulation manufacturer home-grown in the city with production facilities in Mainland China, has a distinct perspective on how the city came to stand at the centre of global textile trends.

Hong Kong is better known for business functions such as management and finance, but early textile conglomerates such as HKNW invested and continue to focus on scientific invention, refinement of manufacturing processes, strategic protection of intellectual property, and fulfilling the shifting needs of commercialisation.

Over the years, family-owned businesses in Hong Kong have patented technologies relating to fibre construction and new moulding techniques that are used in products all over the world. The deep levels of intellectual property and engineering expertise in the city keep Hong Kong relevant not only to textiles and garments but also other manufacturing sectors including toys and footwear.

According to Anderson Lee, business director of Hong Kong Non-Woven Fabric Industrial and a fourth-generation industrialist, the city has “close groups of people who can help provide all the knowledge needed for developing products here then producing them in Mainland China”.

“You would be amazed by the number of polymer, chemical and molecular scientists in Hong Kong working on exploring biodegradable materials, germ-repelling solutions, membrane treatments, battery films, and the like,” he adds.

Lee recalls a search for biodegradable materials leading to the discovery of an enzyme that could be extracted from leftover boiled Chinese medicine. “That led us to the discovery of an antioxidant that could be used in knitting fabrics.”

Size and speed

Hong Kong’s compact size and its textile sector being concentrated in a relatively small number of businesses play to the city’s advantage, he adds. When encountering a problem, an answer is seldom more than a phone call away.

It is also a place where ideas can be tested at high speed. Intimate apparel represents just one example of the city’s responsiveness. Lee estimates that “about 70 percent of the world market runs through Hong Kong”. That means if a brand wants to add a range of underwear to its offerings, “it can come to Hong Kong and in just 10 to 14 days go from nothing to having a collection to showcase”.

The city retains additional strategic benefits for companies looking to source textiles and garments. Hong Kong’s proximity to Guangdong province and easy transport links by high-speed rail and air to hundreds of cities across China.

“We must think big and far, utilising our access to resources not just over the border in Mainland China but in the rest of Asia,” he explains. “What’s most crucial to success now is our ability to curate the supply chain to cater to certain markets.”

Sustainability matters too

In addition to enjoying traditional business success, Hong Kong is a driving force in global textile sustainability, Lee says. The Hong Kong Stock Exchange was one of the first bourses in the world to enforce a commitment by main board-listed companies to environmental, social and governance (ESG) reporting. The new requirements significantly improve Hong Kong’s regulatory framework for ESG governance and disclosure, and position the bourse as a pioneer in Asia in driving ESG disclosure.

Lee points to his involvement as a founder and board member of the Higg Index, a suite of tools that enables brands, retailers and facilities of all sizes to accurately measure and score the sustainability performance of a company or product. The index was developed by the Sustainable Apparel Coalition, an industry-wide group for which Lee has served as a board member since 2013.

From innovation to sustainability, Lee anticipates Hong Kong will continue to evolve and adapt in ways that few can predict. “Hong Kong tends to exceed people’s expectations,” he says.

Tech and innovation adding value



If there is one concept undergirding the change sweeping across the full range of sourcing activities, it is innovation. Powered by technology, innovation in Hong Kong is improving traditional competencies, allowing for the development of new expertise and adding value to what companies do.

“A lot of innovation takes place here,” says Lynne Sprugel, Founder and CEO of abuzz global, a consulting firm focused on sourcing and supply-chain risk management planning. “There’s a thriving business in Hong Kong for things such as online sample approvals, colour management for textiles, AI, data crunching and augmented reality/virtual reality (AR/VR) systems. These are revolutionising what can be done.”

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We are living in a new digital age, and we are starting to see Hong Kong emerge not only as a leading smart city but also as a digital supply-chain services hub.



Roy Leung
Partner, Head of Transport,
Hong Kong
KPMG China

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Essential to Hong Kong’s innovation are places like Cyberport, a digitally focused business park comprising more than 1,500 start-ups and technology companies. Launched in 2004 and spanning more than 1 million square feet of office space on Hong Kong Island, Cyberport is a major supporter of the city’s start-up ecosystem.

Another significant contributor to the ecosystem is Hong Kong Science and Technology Parks Corporation, which counts more than 13,000 people in its community of more than 900 innovation and technology companies. Located in the New Territories of Hong Kong and established in 2001, it also provides access to research labs and new businesses from software developers to biotech.

Innovative suppliers are finding and testing new materials in collaboration with the Nano and Advanced Materials Institute (NAMI) hosted by the Hong Kong University of Science and Technology at its laboratories in Science Park. Suppliers are also working with the city’s various supply-chain-related developers like CBX Software to offer new processes and tools for the industry.

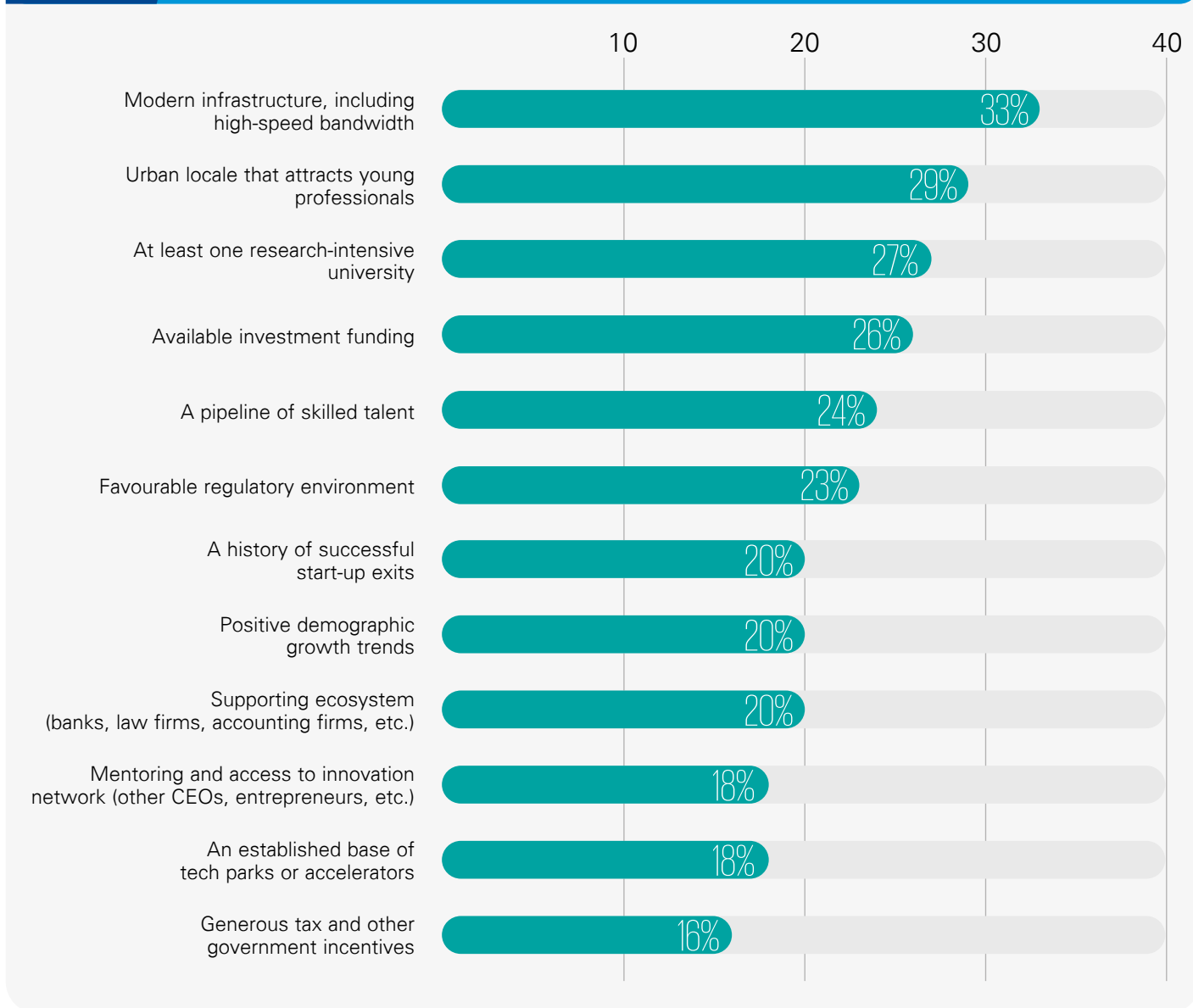
One of Hong Kong’s most instrumental innovation catalysts is The Mills, a former textiles factory converted into a design hub with a special emphasis on textiles and fashion. The Mills holds a unique position in the sourcing ecosystem as its incubation programme connects start-ups with the fashion industry in areas including materials and supply-chain innovation. The garment industry received a boost through the Sham Shui Po Design and Fashion Project, under construction in Hong Kong’s historic garment district and due to open in 2023 as a vehicle to support fashion designers and cultivate start-ups in the field.

In the 1950s and 1960s, the area of Sham Shui Po became known as the heart of Hong Kong’s textiles manufacturing industry. In the ensuing decades the area has remained popular with designers and craftsmen, with a wide variety of wholesale and retail suppliers of textiles, garment accessories, ready-to-wear offerings and leather crafts. It is home to a lively mix of traditional artisans and a new generation of creative entrepreneurs.

Companies based in Hong Kong like MASSBRANDED can show what is possible by remaining agile. The online-only men’s streetwear fashion maker sources most of its materials in Sham Shui Po. MASSBRANDED embodies the idea that even a relatively young, modestly-sized company can do everything in Hong Kong from sourcing to production.

Indeed, the ecosystem for start-ups in the city is blossoming. The number of co-working spaces, incubators and accelerators in Hong Kong surged from just 35 in 2014 to more than 110 in 2020. This expansion has in turn supported a rise in the number of start-ups, up 6 percent from 2019 to 3,360 in 2020 and between them employing some 10,688 people.¹⁹

Figure 8.1 Key factors for a technology hub



Source: KPMG 2020 Technology Industry Innovation survey

In an annual survey of global technology leaders, the most important factors that enable a city to become a technology innovation centre are infrastructure, urban locale and research-intensive university (Figure 8.1). Hong Kong is one of the selected top ten leading innovation hubs outside the Silicon Valley over the next four years.

¹⁹ InvestHK survey, November 2020

Making a beeline to sourcing knowhow

Minesh Pore
CEO & Co-Founder
BuyHive Ltd



Filling a niche and offering a win-win proposition for all parties involved, BuyHive Ltd is an online platform focused on pairing companies from around the world with Hong Kong-based sourcing professionals. The start-up helps businesses connect with talent to obtain the best goods available at the best price, catering to agile supply-chain needs.

The rapid growth of online retailing is transforming sourcing, posing challenges to even the world's biggest retail operators. As more people switch to e-commerce, not only are many brick-and mortar stores closing, but also the world's retail giants are finding their buying practices disrupted by new forms of technology-enabled consumer behaviour.

"In the past, the biggest 20 percent of retail companies bought 80 percent of the goods, and the order sizes used to be enormous," explains BuyHive Ltd's CEO and co-founder Minesh Pore, a 20-year veteran of the global sourcing industry who has worked for MNCs in Asia, Europe and the US. However, the rise of e-commerce has shifted the landscape and created new opportunities, which will only accelerate in a post-COVID-19 world.

Smaller 'e-tailers' selling through online platforms comprise a growing share of total retail volume worldwide. Pore says the number of sellers on Amazon in the USD 1 million-plus sales category has doubled from 2,500 to 5,000, while in the less than USD 500,000 category, it is now at almost 100,000 sellers.

Seeing these changes, Pore observed that many new companies lacked a sourcing background. "They know how to sell, but they lack the capabilities to check what they are buying," he notes. "We can make people who do know about the ins and outs of buying goods from Asia available to international buyers."

BuyHive Ltd makes sure to understand the requirements of international buyers and their business needs, and then matches them with freelance sourcing professionals: people with decades of experience and long-standing relationships with manufacturers in Mainland China and elsewhere in Asia.

"These are people who don't simply rely on navigating sourcing platforms such as Alibaba, Global Sources, Made in China and others, but from experience know which suppliers are the most reliable, which ones are better at handling smaller or larger order sizes, and so on," he says.

Technology plus talent

As additional platforms and apps are developed that will make it easier for businesses to set up, find and take care of customers, Pore envisages a continuing fragmentation of the retail sector.

"The secret is technology," he says. As examples of the kinds of apps that can help smaller retail businesses offer high levels of service to their customers, Pore points to platforms that can handle marketing and sales functions, and customer-relationship

management (CRM) tools that help customer-facing staff be more productive. On the supply chain, there are multiple technologies and apps available that can help manage product inventories.

Hong Kong's sourcing sector can sharpen its competitive edge, he maintains, by adjusting to these changes. "It's going to be about intelligence and relationships," says Pore, noting Hong Kong has long had the relationships but must now also figure out how to package that knowledge with the online services that have become available. Further, sourcing professionals in the city need to find new ways to add value to those looking for goods to sell.

In this vein, Pore aims to expand BuyHive Ltd's services to include factory inspections, logistics management and remote prototyping. He also wants to have an AI component up and running, collecting, collating and analysing the data BuyHive gathers to identify trends and offer the findings to brands.

As Pore sees it, the new online-focused environment yields opportunities, and there are roles for Hong Kong to play in the evolving sourcing landscape. Drawing upon an accumulation of expertise and strong pool of sourcing veterans that can be capitalised on, Hong Kong can assert itself as "an exporter of knowledge and technology to the world".

Bringing together technology and talent

Chadwick Xu

CEO
SVV



In a city whose global claim to fame is that of a high-end technological hub, SVV stands out for helping businesses move from prototyping to product engineering and supply-chain building to full commercial development.

Based in Shenzhen right across Hong Kong, SVV enjoyed notable recognition soon after its founding in 2015: the company was invited to participate in a unique collaboration with the Massachusetts Institute of Technology (MIT). The company was sought out on the strength of its ability to complete prototyping in less than two weeks at significantly lower costs than other companies.

Through the MIT Hong Kong Innovation Node, launched in 2016, SVV is helping to develop the next generation of entrepreneurs as they hone their coding, data and smart manufacturing skills. The venture places MIT students, faculty and researchers alongside their Hong Kong counterparts to work on an array of entrepreneurial and research projects. The idea is to combine resources and talent, helping participants move ideas more quickly from lab to market.

MIT chose Hong Kong for the density of high-quality universities as well as the ease of doing business in the city and across the Greater Bay Area (GBA), including Shenzhen. MIT is one of many influential entities taking a keen interest in the type of prototyping that SVV has achieved and in the company's ability to help businesses quickly scale up their operations.

In another recent venture, SVV completed a project with the University of California at Berkeley to help students there develop a sensor for measuring the presence of toxic chemicals. The company helped the students develop the physical housing, control system and power supply for the sensor, then presented it to a German company for commercial business-to-business application.

Apart from these undertakings, SVV can work with the innovation arms of existing firms, as it now does for global customers.

In this sense, SVV contributes meaningfully to strengthening Hong Kong's innovation ecosystem, and it is little wonder that the company is prized far beyond Shenzhen for the support it provides to the sourcing industry.

As for the global impact of the pandemic and the industry's ensuing re-examination of supply chains, SVV CEO Chadwick Xu believes Hong Kong can flourish by focusing on bringing to the GBA the technology that will help all facets of the industry plus the talent associated with it.

With Hong Kong typically serving as a hub for sourcing offices and Shenzhen routinely a prototyping base, the two cities' complementary roles make for a compelling business case.

"If Hong Kong and Shenzhen work together to attract global technology innovators, the shared opportunities

would be enormous," Xu explains. "It could lead to a new era of transforming manufacturing."

Innovation holds the key

Based on SVV's groundbreaking work to date, Xu firmly believes that innovation is indeed reshaping manufacturing.

"China's economy has reached a level where low-end manufacturing will inevitably be replaced by tech-driven, mid-range and high-end products," says Xu, who in the 1990s ran factories making smartphones and other electronic goods. "This is true both in business-to-consumer and business-to-business companies."

For China to move to the next stage of its development, Xu suggests, it must expand beyond its internal resources. He believes technology, innovation, creativity and talent from around the world will be needed.

This should translate into an opportunity for Hong Kong to enhance its role, specifically as a conduit for technology and technology talent. Xu envisions the city building on its knack for figuring out how to connect China to the rest of the world, "a form of soft power Hong Kong can and should take advantage of".

Over the next few years, Hong Kong and Mainland China are expected to focus on higher added-value products as well as product design and development. This is leading to an increased demand for highly skilled creative and technical people that can be tapped into.

Figure 8.2 Global top 10 science and technology clusters

Rank	Cluster name	Economy	PCT applications	Scientific publications	Share of total PCT filings, %	Share of total pubs, %	Total	Rank 2013-17	Rank change
1	Tokyo-Yokohama	JP	113,244	143,822	10.81	1.66	12.47	1	0
2	Shenzhen-Hong Kong-Guangzhou	CN/HK	72,259	118,600	6.90	1.37	8.27	2	0
3	Seoul	KR	40,817	140,806	3.90	1.63	5.52	3	0
4	Beijing	CN	25,080	241,637	2.40	2.79	5.18	4	0
5	San Jose-San Francisco, CA	US	39,748	89,974	3.8	1.04	4.83	5	0
6	Osaka-Kobe-Kyoto	JP	29,464	67,514	2.81	0.78	3.59	6	0
7	Boston-Cambridge, MA	US	15,458	128,964	1.48	1.49	2.96	7	0
8	New York City, NY	US	12,302	137,263	1.17	1.58	2.76	8	0
9	Shanghai	CN	13,347	122,367	1.27	1.41	2.69	11	2
10	Paris	FR	13,561	93,003	1.30	1.07	2.37	9	-1

Source: Global Innovation Index 2020

Across the Mainland border from Hong Kong, Shenzhen helps boost the city's innovation capacity. Many companies are making the most of Shenzhen's widely available 3D printing services, computer numerical control machinery and other automated production systems to explore the city's rapid prototyping ecosystem.

When a product is finalised, scaling up to mass production is straightforward, thanks to the sizeable number of manufacturers across the GBA and beyond. But production in Hong Kong is possible as well for low-volume runs of goods tailored or customised for niche markets.

As Chadwick Xu, CEO of SVV, an engineering and rapid prototyping venture firm that works with start-ups, notes: "Flows of talent and technology into China are creating a big opportunity for Hong Kong to go to the next level of being a super connector."

Alongside this influx, factories are adapting to more automated production involving robots. These processes apply to an extensive range of products, from toys to home appliances, and they utilise the latest in robotics and the Internet of Things. VR systems significantly reduce the need for physical factory visits. VR systems, 3D printers and virtual conferencing rooms can bring product development very close to a production site, reducing dependence on overseas design offices.

This close collaboration within the GBA is recognised at an international level. The World Intellectual Property Organisation (WIPO) has published its list of Top 100 Science and Technology Clusters Ranking, in the Global Innovation Index 2020. Shenzhen-Hong Kong-Guangzhou as a cluster, came second. (Figure 8.2) The ranking methodology has taken into account the number of inventors listed in patent applications under WIPO's Patent Cooperation Treaty (PCT), spanning from years 2014 to 2018.

Browzwear, a specialist in 3D apparel design software, is but one example of a pioneering company with a strong Hong Kong presence. Its garment simulation engine helped create the first virtual dressing room, and it collaborates with the likes of Nike.

Hong Kong-headquartered TG3D helps fashion businesses adopt digital transformation technology in a way that is user-friendly. Its solutions cover digitalising the design workflow, from the point of prototyping, to offering a more immersive customer experience through virtual browsing of 3D clothing.

Cyberport and HKSTP: catalysts for innovation incubation



Cyberport

With sourcing and supply-chain functions no less subject to digital disruption than other business processes, Hong Kong's Cyberport and the Hong Kong Science and Technology Parks Corporation are focusing considerable energy on ecosystem building.

Cyberport nurtures new companies with innovative technologies that can make the sector more transparent and efficient, and its efforts are proving fruitful. Based on a 2019 start-up survey carried out by InvestHK, which reported a total of 3,184 start-ups (up 21 percent year-on-year), employing 12,478 employees (31 percent increase) across 92 co-working

spaces, incubators and accelerators. The largest number of start-ups were involved in fintech; e-commerce/supply management/logistics technology; and information, computer and technology.

Cyberport alone is home to more than 1,500 start-ups and tech companies, according to Eric Chan, Chief Public Mission Officer at Cyberport. He identifies digitalisation of supply chains as a crucial area for development.

"New technologies are emerging that have relevance to sourcing and supply-chain functions including predictive artificial intelligence, big data and blockchain," Chan says. "Cyberport has start-ups exploring all of these."

Based on the western side of Hong Kong island, Cyberport runs boot camps, incubation and acceleration programmes. It also offers attractive rents for its four grade-A intelligent office buildings, which combined cover more than a million square feet.

Managed by Hong Kong Cyberport Management, a company wholly owned by the city, its incubation programmes extend funding to start-ups through a series of schemes: HKD 100,000 for seed funding, HKD 200,000 for market development and HKD 300,000 in accelerator support. Business advice and professional services are also available, as is a HKD 200 million macro fund to help start-

ups bridge the funding gap as they advance from seed stage.

To apply, a viable business plan must be put forward for a digital tech-related product or service that can be market-ready between 12 and 18 months. Successful applicants can join the programme either onsite at Cyberport or at their own premises.

One of the start-ups is Chain of Demand, an AI analytics company that tracks and predicts consumer demand trends with proprietary machine-learning models.

“Cyberport is about producing the next generation of Hong Kong entrepreneurs,” Chan adds. But that does not mean the entrepreneurs have to be from the city, or that their activities must be focused locally.

More than one third of start-up founders in Hong Kong in 2019 were non-locals, hailing from all over the globe including the US, Mainland China, Japan, the UK, France, Australia, India, Singapore, Canada, Italy and Germany.

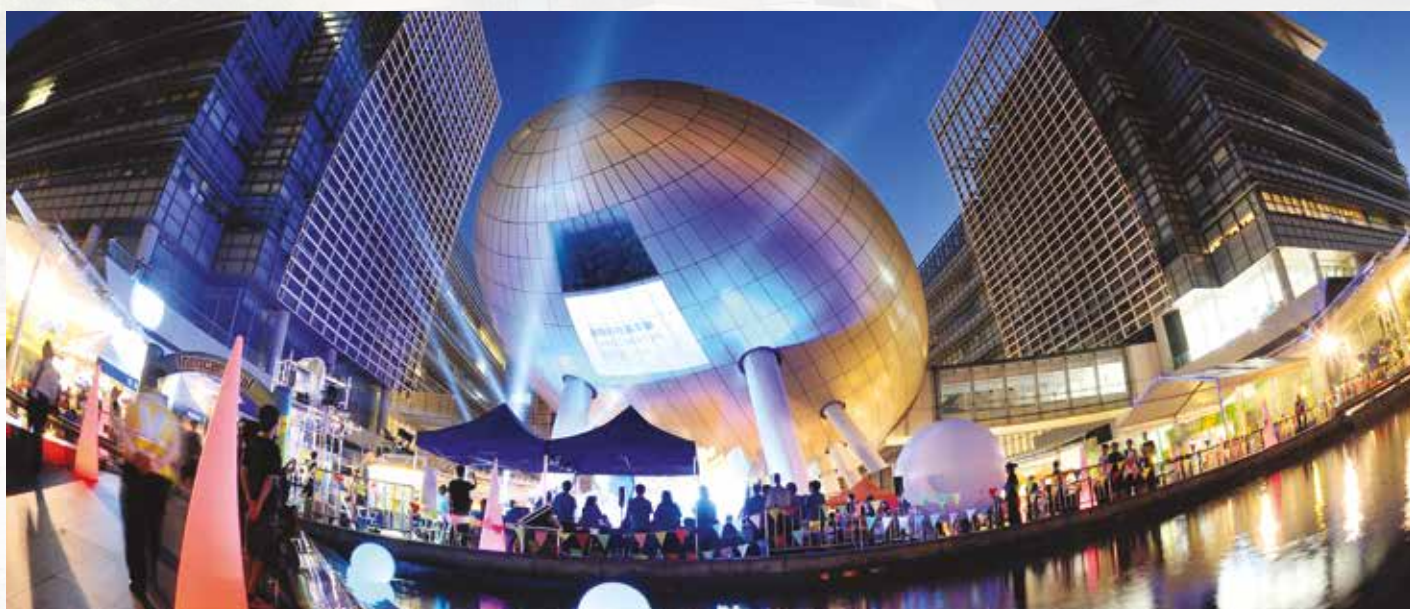
Among Cyberport’s chief functions are generating international opportunities and supplying a base for founders and new companies from around the world. Its tools help manufacturers manage the increasingly complex supply chain environment. Its global partnerships to foster cross-border entrepreneurship include tie-ups with Japan’s Mizuho Financial Group as well as Thailand’s InnoSpace.

One of those overseas companies is Pivot88. Established in Montreal, Canada, it provides cloud-based supply-chain quality management and sustainability tools, enabled by artificial intelligence. They currently serve more than 100 brands and 12500 factories globally.

Hong Kong Science and Technology Parks Corporation, known as HKSTP, also plays an integral role in boosting Hong Kong’s innovation and technology ecosystem. Established in 2002, HKSTP connects stakeholders, facilitates knowledge transfer and nurtures talents to accelerate both technological innovation and commercialisation.

Comprising over 900 technology companies who come from 24 countries around the world, HKSTP thrives on dozens of private and public sector partnerships. Its emphasis on market and industry adoption of technology solutions to make industries more competitive contributes to Hong Kong’s evolving innovation culture and R&D talent pool.

For example, HKSTP manages the Advanced Manufacturing Centre located in a sprawling industrial estate in Hong Kong’s New Territories, designed to provide agile and low-cost production facilities for industries of any scale to take on highly customised production with the application of advanced manufacturing or testing processes. In light of COVID-19, the centre is set to use some of its 1.1 million square feet of serviced manufacturing space to produce PPE materials as part of Hong Kong’s larger reindustrialisation scheme.



HKSTP



Advanced Manufacturing Centre, HKSTP

Explorium: partnering with start-ups for collaborative innovation



Explorium Hong Kong is the innovation and collaboration hub for the Fung Group, a multinational enterprise headquartered in Hong Kong that operates in more than 40 markets around the world. The Fung Group is engaged in both digital and traditional retail, supply-chain management, distribution, trading and logistics.

Explorium Hong Kong was launched in 2018 to serve the Group and its supply-chain and retail partners by scouting and connecting with start-ups and technology companies. It helps business leaders find innovative solutions and caters to diverse audiences – investors, academics, corporates, agencies and NGOs, among others – as each seeks to learn more about the future of consumption, trade and sustainability.

This innovation hub is an initiative that falls under the Fung Academy, which offers accelerated learning within the Fung Group. The academy focuses on the definition of new strategies to drive growth, and equipping the company's leaders and talent with a future-ready mindset.

Transformation forms a core element of Explorium's identity. As a pioneer in Hong Kong's consumer goods industry, the innovation hub was developed to foster talent in the next generation of supply-chain retail leaders. The company traces its history back to 1906 and became a major force in import and export trading as well as global supply-chain management. Through Explorium, the Fung Group demonstrates Hong Kong's ability to anticipate and adapt to emerging trends.

The hub operates under the motto of growth through collaboration. It holds events to get trusted access to wide and diverse ecosystem, ideating and co-creating solutions. This open-source approach translates into several services including offering start-ups a residency to gain business support and exchange ideas; or a proprietary Pilot2Scale program bringing start-ups and technology companies into the Group's ecosystem.

It is currently working with a Portuguese start-up exploring the latest in AI factory testing. It is also

partnering with a Taiwanese start-up with new collaborative AI tools around shortened production cycles.

In its most successful collaborations, Explorium operationalises start-ups' technology within business units of the Fung Group. Start-ups benefit because their exposure to the high-profile multinational gives them access to their intended market and industries and then allows them to scale up from providing a platform to distributing their technology. Members of the Explorium community can then leverage the Fung Group's extensive global network.

Alongside Cyberport, Hong Kong Science and Technology Parks Corporation as well as The Mills, Explorium plays a key role in Hong Kong as an innovation catalyst and ecosystem builder. It provides sandbox opportunities for collaboration, facilitates business experimentation as well as provides much-needed resources to support high-risk, early-stage ventures with disruptive potential.

Thriving on complexity to lead an industry

Thierry Le Breton
 Managing Director
 Dixons Sourcing Limited



Dixons Carphone prides itself on the breadth of its services and support as a consumer electrical and mobile retailer. Technology underpins the British multinational company, whose more than 36,000 employees work in eight countries with 14 brands in some 939 stores.

With its prime location near both vendors and consumers, Hong Kong is uniquely valuable in the highly competitive consumer electronics industry, especially for a company as well-established as Dixons Carphone.

The city stands alone as the best place for working with the industry largely because of its robust infrastructure, according to Thierry Le Breton, managing director of the sourcing arm of the London-headquartered retailer.

“Mainland China made itself the dominant force in the consumer electronics and components space and will remain that way for the foreseeable future,” explains Le Breton. “But Hong Kong is the control centre, especially for all the Greater Bay Area manufacturers and technology companies.”

“The structural capabilities across finance, human resources and information technology here are very solid,” he says of Hong Kong’s strengths. “It offers competitive trade and legal benefits as well as professional, talented and capable people. We see it as the centre of sourcing excellence for the foreseeable future.”

In particular, Le Breton, who manages a team of 75 staff in Hong Kong and another 15 working with the company’s Shenzhen-based sourcing agent, praises the city’s ability to keep pace with technology trends.

Hong Kong is developing the digital platforms and services that are needed to drive sourcing operations, he says. “That’s of vital importance as buyers like us find ourselves having to manage operations that are evolving at a faster rate than ever before.”

The rapid growth in online shopping is changing consumer preferences as well as their buying habits. Surging demand for extended product ranges and expectations for going to market faster than before, for example, mean shorter lead times for product design and development.

Like many companies in the consumer electronics industry, Dixons Carphone sees mobile as the single most important technology product for the customer. It aspires to transform the mobile market into one that ably serves customers, handset suppliers, network partners and the business as a whole. Among other things, this calls for more sophisticated product life-cycle tools and adds a degree of complexity to supply chains and their management.

Digitalisation helping companies cope

Digitalisation technologies are helping companies cope. Le Breton says having access to data from all points of a supply chain, from manufacturing

through to customer delivery, is now allowing Dixons Carphone to fine-tune its sourcing operations in ways that were not possible before and to work more adroitly with its external partners.

“Advanced remote-working capabilities such as virtual reality tools make collaborating with internal and external key-stakeholders much easier,” he says.

Increasingly, the external stakeholders include the manufacturers themselves. “We’re seeing a strategic shift here,” Le Breton says. “The big Chinese companies are increasing their relevance. These players want to be ‘best in class’.”

He notes this ambition became evident in the speed with which Dixons Carphone’s key suppliers and logistics partners in Mainland China recovered from the initial COVID-19 outbreak. “Those businesses rapidly and successfully implemented mitigation plans and quickly resumed their key capabilities, resulting in minimal impact on our supply chain,” he says.

Thanks to their dominance of the manufacturing side of the industry, technical expertise now rests largely in their hands, says Le Breton. In addition, they are taking on responsibility for the ever-more complex compliance and regulatory matters that all electronic goods makers must address, including environmental, social and governance (ESG) issues. With each new intricate challenge, Hong Kong’s assets and knowhow come to the fore.

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We expect to see opportunities for AI and blockchain solutions startups to help accelerate digital transformation in the sourcing and supply chain sectors from the capture of raw materials, through the value-added stages of production, to final customer delivery in near real time.



Irene Chu
Head of New Economy,
Hong Kong
KPMG China

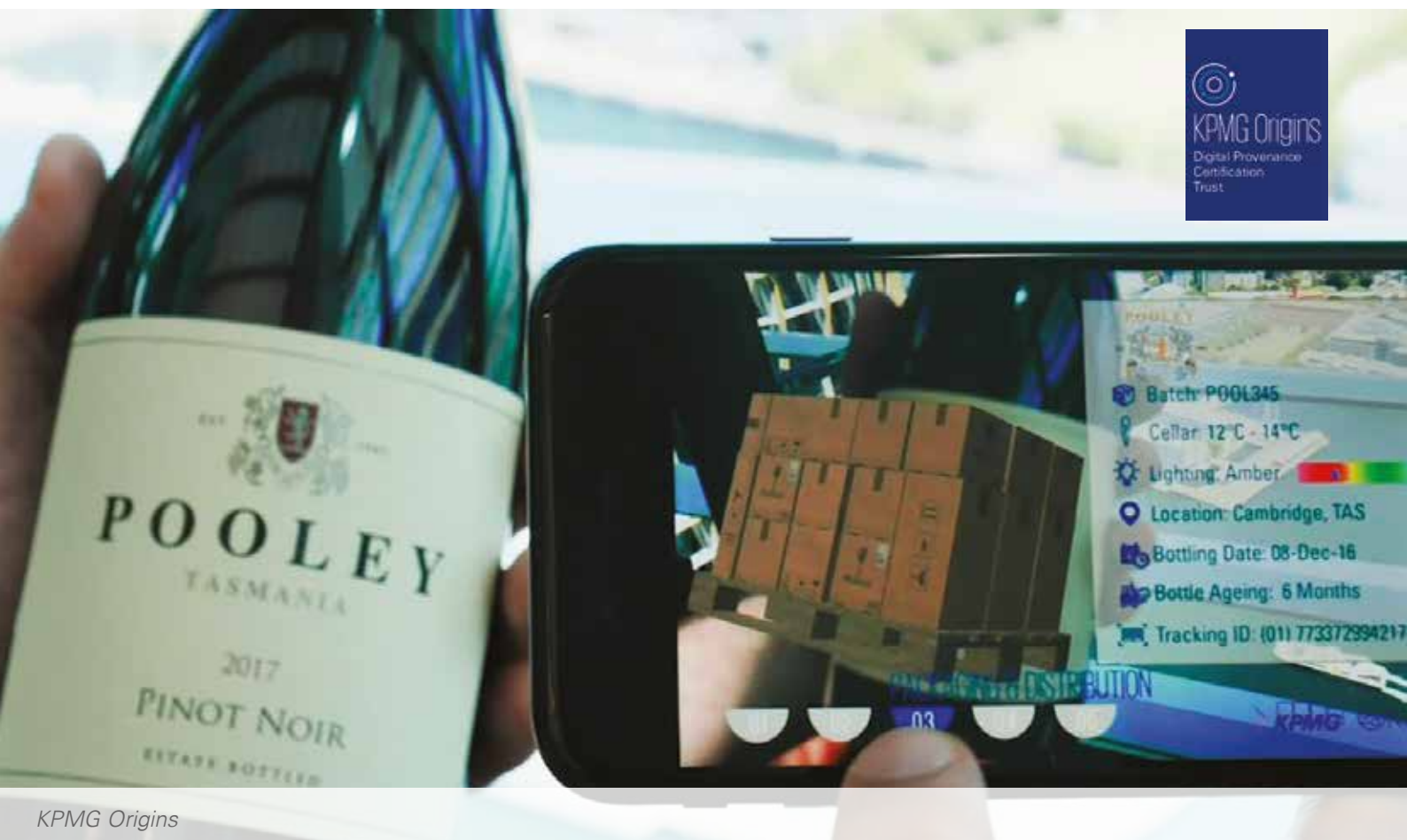
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Technology is an essential enabler for the transformation of the industry, from improvement in operational excellence to customer experience excellence. Supply chains of the 21st century are faster, more interconnected and require sharing of greater amounts of data. The complexities of these ecosystems create operational risks, reconciliation challenges as well as fraud and safety concerns.

There are existing technologies to mitigate those risks and blockchain is one of them. Blockchain technology is a tool that can help generate an infrastructure of trust across the supply chains, with quick and secure sharing of data, protection from fraud and misconduct, as well as storytelling of the products.

“Built on blockchain and a number of other emerging technologies, KPMG Origins helps global trading partners codify trust while enabling more streamlined interactions across organisations and borders.” says Benjamin Usinger, Associate Director, Technology Consulting, at KPMG China.

Solutions exist in Hong Kong for businesses to adapt quickly to the new normal. However, there is room for improvement in technological advancement. It takes businesses to embrace the change in order for the industry, and thus the city, to grow in maturity in terms of technology enablement.



Conclusion





Hong Kong is an international hub for business.

Whether you are a large multinational focused on driving greater supply chain transparency across the region along with the latest ESG reporting standards or a start-up working on the latest emerging 3D design technologies in an incubator programme, you can find success in the city. The networks and opportunities available in Hong Kong are unique.

Angelica Leung

Head of Consumer Products
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We are living in a digital world that has accelerated rapidly in 2020 due to the impact of COVID-19. Businesses must be prepared for the new digital era in which we operate across a seamless global marketplace.

Changes are taking place in global production networks. With companies evaluating their sourcing footprints, industry supply chains have become more regional, more resilient and less interdependent.

In this study, we have seen companies look at smart manufacturing opportunities with the adoption of more autonomous factories, and new production models are taking shape.

We can expect more breakthroughs in product and material innovation, along with leveraging emerging technologies, such as AI, to enable production volume adjustment to meet the continuously changing demand.

With the latest Internet of Things developments, it is possible for management to retrieve the latest manufacturing performance instantly and accurately. Virtual sampling and 3D body scanners are being created and made in Hong Kong, enabled by cutting-edge technology and rapid prototyping from across the GBA. The power of this clustering effect of Hong Kong along with other key cities in southern China is increasing with the development of the GBA initiative.

To prepare Hong Kong as a technology and innovation hub fit for the future, senior executives in the sourcing industry are embracing change and adopting a more digital mind-set in order to build a future ready workforce. They have mentioned the need for innovation, flexibility, agility and to digitise, which is the key ingredient to success. There is room for greater innovation across the various ecosystems of businesses and allowing greater engagement with our people and our consumers.

Along with the new production models, new consumption models are emerging that will impact the way we do business in the future. It is no longer the case that only manufacturing is affecting sourcing but also changing consumer behaviours. With the impact of COVID-19 and rising costs worldwide, Hong Kong's longstanding role as an international business and financial centre makes it well placed to serve Mainland China, especially the GBA region, as well as ASEAN and the rest of the world in a new digital era of interconnectedness.

Organisations need to leverage new digital technologies to ensure they can track changing consumer behaviours, consumer journeys and consumer spending patterns, with a view to understand consumption patterns of the growing number of digitally savvy consumers more precisely through data analytics.

Both stakeholders and consumers are demanding businesses to drive a green recovery with a greater focus on ESG along with far greater transparency across supply chains in the wake of COVID-19. There is a call for a sense of purpose and the need for inclusive prosperity and growth across the entire supply chain where all players need to collaborate in this new normal.

Hong Kong's international mind-set is crucial for its future. But it must also establish a more diverse talent pool in order to create the future-ready workforce – skilled at working with data analytics, blockchain and AI tools – its supply chain sector will require.

To address the upcoming challenges, the leverage of technology from digital to data science is a necessity. Hong Kong offers a premier location for global sourcing and provides the necessary capabilities to continue to be one of the leading sourcing and digital supply-chain services hubs globally.

About Invest Hong Kong



Invest Hong Kong (InvestHK) is the government department of the Hong Kong Special Administrative Region (HKSAR) responsible for attracting Foreign Direct Investment, supporting overseas and Mainland China businesses to set up and expand in Hong Kong. Its mission is to attract and retain foreign direct investment which is of strategic importance to the economic development of Hong Kong. Since its inception, the Department has helped thousands of companies from all over the world to set up or expand in Hong Kong. In all its work, the Department applies the following core values: passion, integrity, professionalism, customer service, business friendliness and responsiveness. InvestHK has staff and representatives in key business cities worldwide looking after target markets in Asia Pacific, Europe, Middle East and North and South America.

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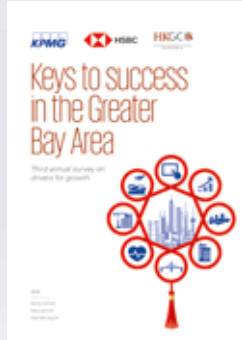
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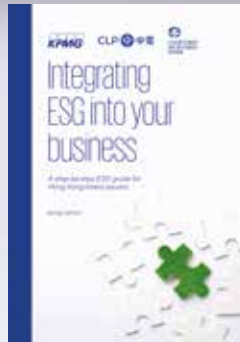
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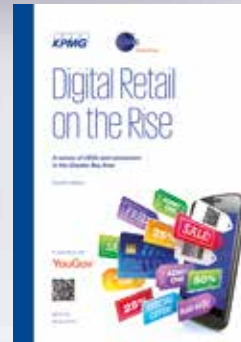
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Results matter: Improving supply chain resilience



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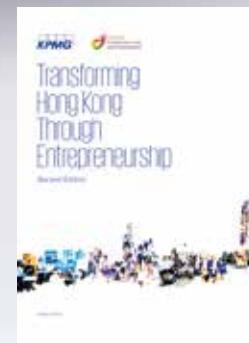
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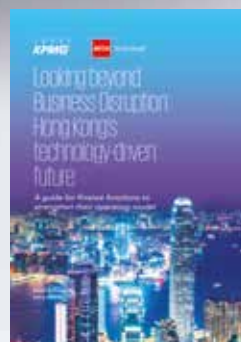
Transforming Hong Kong through Entrepreneurship



AI for everyone



Tax Alert – Regional Comprehensive Economic Partnership



Hong Kong's technology-driven future



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