CHAPTER FOUR

SOME CASE STUDIES

China is often seen as the biggest "new" market or "last economic frontier" in the world mainly because of its large population. Businessmen itching for investment in China are excited about the promise of the vast Chinese market. In the last week of June 1993, both the World Bank (WB) and the International Monetary Fund (IMF) came to the conclusion that " China's market is not just big, it is very much bigger than ever envisaged." (Tan Cheng Leong 1993: 43) An average-sized province of China has a population of 50 to 60 million, equivalent of three times that of Malaysia's. The relationship between China's population and its market potential has been strikingly captured by Malaysian Minister of Primary Resources, Lim Keng Yik, who once said, "one kilogram extra of oil a year for every person in China will create a shortage of palm oil in the market." (NYSP, 8/10/90) Backed by its large population, certainly the demand for foreign investment as China races to open its economy is huge. Moreover, besides its large domestic market, the unmatched attractions of low-cost and abundant labour as well as cultural similarities (Pang 1994: 46) have also served as a strong appeal to the Malaysian PLC as a foreign investor in China. The Chinese economy is full of business opportunities and is hungry for capital investment from abroad. This is not to say, of course, that the average businessman in Malaysia will grab this opportunity.

As described in the last chapter, the investment trend for Malaysian companies in China can be divided into three phases. To provide an in-depth picture, this researcher has selected six PLCs, namely Hai-O, FACB Industries (formally known as Dreamland and subsequently Kanzen), the Lion Group, Southern Steel, Muda Holdings and Metro Kajang as examples of companies that have invested in China. Hai-O was a typical traditional China goods merchandiser, which eventually set up factories in China. Hai-O's experience was invaluable for the development of Sino-Malaysian economic relations. FACB Industries (FACBI) was the first PLC to invest in China and continued to stay in China after 14 years of operation and change of ownership. The expansion of FACBI in China also made it the best example of the first phase of PLCs which invested in China. The Lion Group was the company with the fastest expansion rate among the PLCs which started to explore the China market during the second phase. Southern Steel probed the China market at the end of 1993 and decided to move in one year later as part of its regional strategy. Muda Holdings set up a wholly owned company in China which is rare among the PLCs. The last three PLCs moved into China during the second phase and remained in the China market until today. Finally, the writer selected Metro Kajang which went into the China market in 1997 as an example of the third wave of PLCs. The writer will try to analyze the story behind these six companies to get a picture of Malaysian PLCs investing in China.

Table 4.1 Six PLCs in Respective Periods

Stages	Time Frame	Name of PLC
Pre-phase 1	(before1985)	Hai-O
Phase 1	(1985-1990)	FACB Ind.
Phase 2	(1991-1995)	Lion Group Southern Steel Muda Holdings
Phase 3	(1996-)	Metro Kajang

I. HAI-O

The resumption of diplomatic relations between Malaysia and China in May 1974 not only opened a new chapter in the annals of relations between the two countries, but also began a trend, the so-called "China fever" with many excited about China. Many people saw the opportunity of setting up businesses to sell imported Chinese goods. A group of more than 70 Labour Party members and their relatives recognized the considerable potential and raised RM 168 000 capital to set up Hai-O Enterprise Sdn. Bhd., which specialized in the wholesaling and retailing of Chinese wines, medicines, herbs, tea and hygienic products (Prospectus in Appendix A). Over the years, the business expanded steadily and gained a place in the competitive Chinese merchandise market. Hai-O eventually became the leading importer of Chinese medicinal and cooking wine, capturing 81% and 6.6% of market share respectively (Star, 2/12/96).

After years of expansion, Hai-O evolved into a well-diversified group that branched out into other businesses such as insurance, financial services for credit and leasing facilities, advertising services and most importantly, direct selling. By the time it became the first company dealing in Chinese goods to be listed on the Kuala Lumpur Stock Exchange in 1996, 21 years after its establishment, the group had more than 20 subsidiaries, of which 15 were active. Its annual turnover had risen from RM 0.9 million to more than RM 150 million, with its staff numbers increasing from less than 10 to more than 550. Share capital began with RM 168 000 in 1974 and exceeded RM 15 million subsequently (Prospectus in Appendix A).

According to Hai-O's founder and managing director, Tan Kai Hee, "1989 was the turning point for Hai-O." In that year, Hai-O's Singapore shareholders quit the company. Hai-O's Board of Directors decided to convert the company into a non-listed public company from the name Hai-O Enterprise Sdn. Bhd. to Hai-O Enterprise Bhd on 5 June 1989, thus paving the way to public listing.

For Tan, "Another milestone for Hai-O was, of course, investing in China; it signified that we could go beyond Malaysia." As early as 1984, Hai-O had set up subsidiaries in Singapore and Hong Kong to handle imports of Chinese goods. In 1990, Hai-O invested RM 600 000 to open a Chinese Medical Restaurant named Great Tang Mountain Villa (GTMV) with Shanxi Medical and Health Care Company from China at Jalan Ampang, Kuala Lumpur. Hai-O held 60% equity in the restaurant, which was the first Sino-Malaysian joint venture catering business (Tong Pao, 17/11/90). In 1993, Malaysia-China Bees Product Sdn. Bhd. (MCBP) started operations. MCBP was a joint venture between PKNS, Hai-O Enterprise Bhd., China Beijing Corp. and Beijing Agricultural Industry and Commerce General Corp., in which Hai-O held 29% equity (NYSP, 23/6/95). Unfortunately those two joint ventures in Malaysia did not do well because of poor management. The GTMV stopped business in 1994. The MCBP became the wholly owned subsidiary of PKNS when both Hai-O and the China partner withdrew their shares in 1996.

However, failure in joint ventures did not stop Hai-O from venturing into other business opportunities in China. According to Tan, "Investing in China was natural for us as a Chinese merchandiser," and quoting a Chinese proverb, "when water flows, a channel is formed" to express "when conditions are ripe, something will happen". In subsequent years, Hai-O invested in Shangqiu Linhai Wine Industry Co. Ltd. and Zhaoqing Hai-O Winery Co. Ltd. in 1993 and 1994. Hai-O held 40% and 33% equity respectively (Prospectus in Appendix A). According to Tan, "we need constant and quality supply of Chinese wine, [so] the best way is to take up a certain amount of equity in a supplier company." Hai-O also set up two wholly owned subsidiaries in China namely Hai-O (Xian) Industries Co. Ltd. and Hai-O (Jiangxi) Industries Co. Ltd. in 1995 and 1996 respectively (Annual Report 1997: 32).

To further complement the existing business and to respond to the government's call for more local content, the group has incorporated Hai-O Pharmaceutical (M) Sdn. Bhd. to set up a factory in Klang to manufacture Chinese patent medicines. The factory began operations in 1994 and became the first traditional Chinese medicine manufacturer in Malaysia to have complied with the "Good Manufacturing Practices" standards set by the Ministry of Health. The factory was set up with the co-operation and technical support of experts from China (NYSP, 2/12/96).

Regarding investment in China, Hai-O's experience noted a number of problems. Tan admitted that there was too much red tape, "it takes a long time for applications to get approval, and it is quite frustrating when things turn sour. Often what has been agreed to may not be realized." China's decision to ban direct selling had also caused substantial loss to Hai-O (Xian) Industries Co. Ltd. Besides, staff work attitudes, large expenses for maintaining "guanxi"(connections) are the drawbacks of investing in China. However, Hai-O did quite well in the first two joint ventures in China. Tan attributed the success to willingness to accept less than controlling power and no emphasis on profit but instead, Hai-O "requested for product sole agency and reasonable pricing".

From the development of the Hai-O's investment in China, the writer can conclude the following:

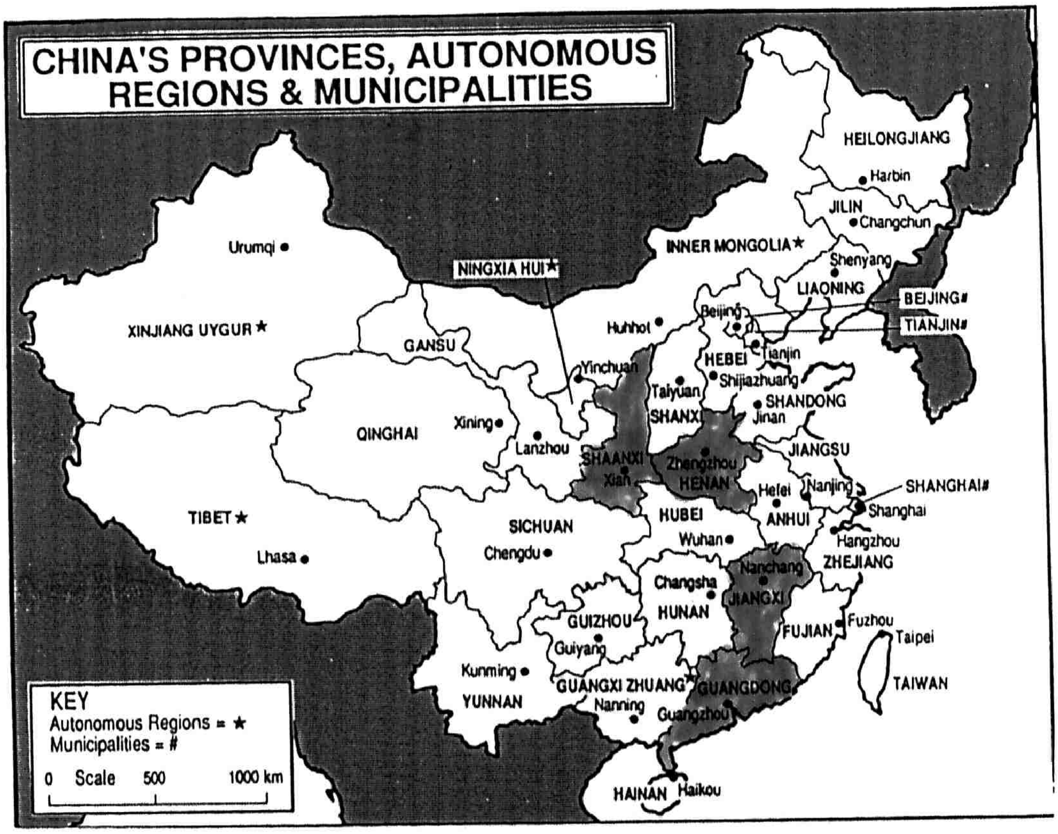
1) All investments centered on the core business of the group, i.e. Chinese wine and medicine. Hai-O started as a Chinese wine and medicines retailer, and grew to become a market leader in Chinese wine and eventually set up factories in China to manufacture wine itself. The investment in China can be seen as a step to strengthen its foothold on the Chinese traditional wine business.

2) Unlike the Lion Group, the Hai-O proceeded step by step, from the coastal to inland areas (Map 4.1). This is in line with one of the practices of doing business by the Chinese business community, i.e. prudent and conservative expansion. Although the expansion rate is significantly slower than many others, as a result losing the opportunities available to the early bird, the company's exposure to uncertainty is also reduced. Tan personally admitted that the group will stick to the traditional business it is familiar with the knowledge of its strengths and weaknesses.

3) Investment in China was closely linked to trade and the retail business, that was to guarantee supply of products and it did not play a vital role in the group's profit (Annual Report 1998: 14). In other words, investment in

China served as a complement to the existing importation and distribution of Chinese wine in Malaysia.

Map 4.1 Location of Hai-O's Investment in China



4) The human factor plays a crucial role in the success of a joint venture. That is to say, the attitudes and behavior of the people involved determines the future of a particular project. Compared with objective factors, such as supply of raw material or availability of infrastructure, the human factor is much harder to deal with.

II. FACB INDUSTRIES INC. BHD.

The story of FACBI must be traced back to Dreamland Co., a company which was set up in 1976 by Lim Kim Hong. In 1979, Dreamland Co. changed its name to Honco Holdings Sdn. Bhd. with an authorized capital of RM 10 million. Its wholly owned subsidiary, Dreamland Spring Sdn. Bhd. (DSSB) became the first Malaysian company to produce spring mattresses in the same year.

In the mid 1980's, the Malaysian economy was hit by recession which spurred DSSB to venture offshore to overcome the predicament. Lim Kim Hong joined the official trade mission led by the Deputy Trade and Industry Minister to China to explore trade opportunities. Lim foresaw the need for high quality mattresses of the numerous hotels in China (Malaysian Business 10/85: 13). Under Lim's effort, DSSB set up a joint venture with three Chinese companies to manufacture spring-coil mattresses in Tianjin in December 1985 and held a 40% equity in the venture (NYSP, 6/7/85). The venture has the honour of being the first Malaysian PLC to invest in China and it started operations in November 1986 (SCJP, 30/3/87). The success of the venture was noticeable for there was a three to six month waiting list for its mattresses (Star, 26/7/88).

In November 1985, Honco Holdings Sdn. Bhd. changed its name to Dreamland Holdings Berhad and was listed in the Kuala Lumpur Stock Exchange in May 1987. The company announced its plan to expand its operation in 14 towns in China through the establishment of joint ventures. The second factory in Shanghai was initially scheduled to be completed in 1987 but only commenced operation in

January 1990 (NYSP, 30/10/90). However, until June 1995, there have been only seven bedding factories established (NYSP, 28/12/95).

In November 1991, Dreamland changed its name again to Kanzen (which means perfect in Japanese and steel mountain in Chinese), signaling its the entry into a new era of diversification: from bedding to steel products manufacturing. In line with the company's diversification, the Chinese partner invited Kanzen Bhd. to set up a steel factory in Pudong, after the success of the joint venture in Shanghai. Kanzen also planned to merge the two factories in Tianjin and Shanghai in order to be listed in China (NYSP, 29/5/92), although this has not yet taken place.

In June 1993, Kanzen Bhd. announced a RM 3.1 million joint venture project to make steel wire and wire rope (NST, 26/6/93). In November 1993, Kanzen Bhd. announced that it had set up a joint venture company with two other Malaysian public listed companies, i.e. Shanghai Chong Kee (SCK) and Tan Chong Motor in the ratio of 55: 20: 25 respectively. The joint venture company thereafter entered into a power generation project worth RM 32 million in Jiangyin (China Press, 18/11/93).

In February 1994, Kanzen signed two more joint venture agreements, planning to take a 30% stake in Tianjin Kanzen Air Conditioners and 40% stake in Tianjin Kanzen Copper Plate and Strip Co. with a total investment of RM 34.65 million. It was also reported that Kanzen will invest in property development (NST, 22/2/94), but that project was shelved.

In late 1993, "having achieved his personal and professional goals in developing Kanzen into a leading force," (Star, 7/2/95) Lim Kim Hong, who was responsible for steering Kanzen to what it was, both in Malaysia and China, sold most of his stake in Kanzen and returned to head his own company, Sumurwang Sdn. Bhd.. He resigned from the Board of Directors of Kanzen in March 1994. There were many changes in the control of the company in the following years.

Kanzen's new management announced that the company will consolidate its China-based operations which included an air-conditioner plant besides power generation, the manufacture of copper plate and steel wire rope (Star, 28/12/95). In the bedding sector, competition and rising production costs have trimmed profit margins. As at the financial year ending June 1995, there were ten joint ventures in China, an increase of three from the year before. However, contribution of the China operation dropped 62% from the previous years (NYSP, 28/12/95).

However, the buyer of Lim's stake did not register his share. Until October 1995, Lim was still the registered major shareholder (NYSP, 19/12/96). In May 1996, Lim bought back 20% stake from the open market but divested it within two weeks. After years of uncertainty regarding control of the compny, control of Kanzen finally fell into the hand of First Allied Corp. Bhd. (FACB) in 1997. FACB's president, Tan Sri Dr Chen Lip Keong changed Kanzen's name to FACB Industries Bhd (FACBI)(SCJP, 8/11/97). Chen announced that the company had plans to merge its two divisions in China—bedding operations and Tonglu highway projects—under one company, and subsequently to list it on the Hong Kong Stock Exchange (Star, 8/11/97). As at the financial year ending in June 1998, the China operation accounted for only RM 1.41 million or 10% of the total contribution on profit before tax. Investment on Tianjin Air Conditioners was divested while the bedding sector was facing increased competition during the financial year (NYSP, 5/7/99).

From the development of FACB Ind.'s investment in China, the researcher can conclude the following:

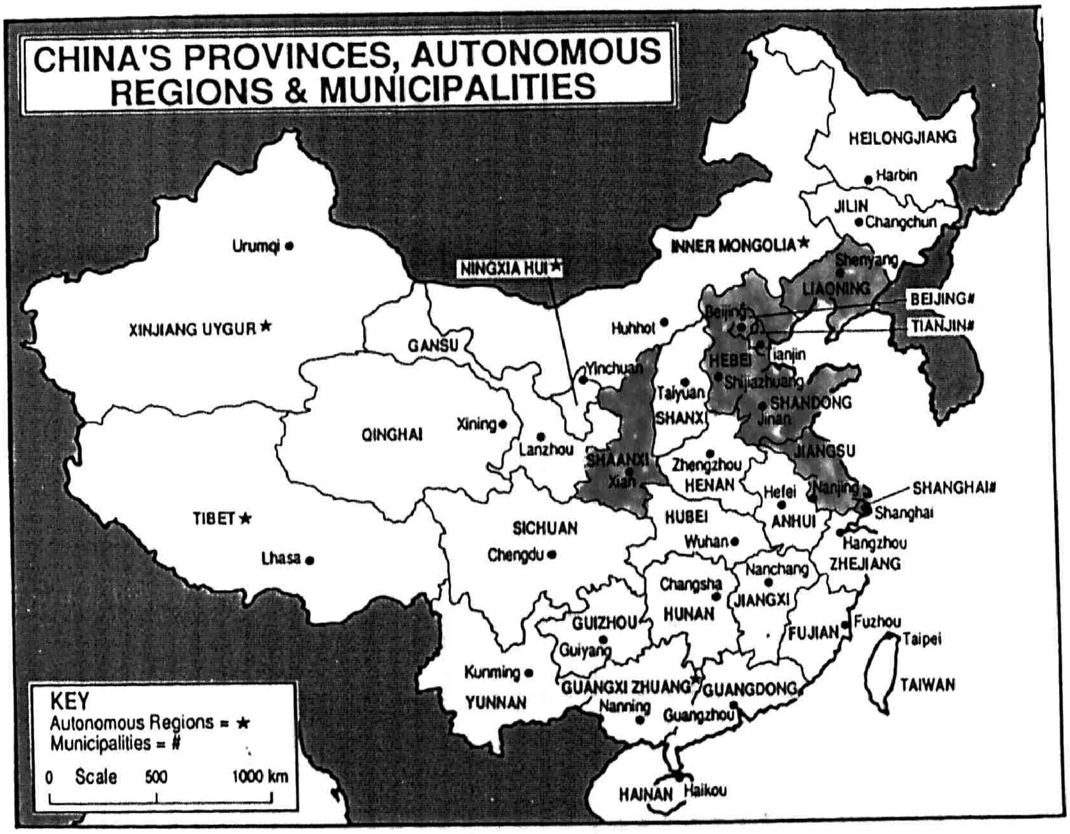
1) The company started from its core business and gradually ventured into new domains. From spring mattress manufacturing, FACB Ind. diversified to produce steel products, air conditioners, copper plate and strips and eventually became an independent power producer.

2) The investments were concentrated in certain provinces and cities, namely Tianjin in Hebei Province, Shanghai and Lianyungang in Jiangsu Province, Dalian in Liaoning Province, Qingdao in Shandong Province and Xian in Shaanxi Province. All of these cities are among the 14 coastal cities opened to foreign investment and located in the northern coastal area except Xian which is inland (Map 4.2).

3) Lim Kim Hong played a vital role in the investments in China. This can be deduced from the fact that there have been no new China projects after he left Kanzen in late 1994. Lim was invited to become a committee member of the Shanghai Foreign Investment Association (Forbes 9/92: 32) and was also appointed the economic adviser of Jiangyin city in October 1992 (Business World 12/92: 24). These kinds of posts are awarded to those with good "guanxi" with the various local governments. After he left

Kanzen, he continued exploring business opportunities in China through his private company, Sumurwang. For example, Lim proposed "China Net" at the RM 2 billion Sumurcity project in Shah Alam which served as a window for foreign investments in China (Star, 1/3/95). Unfortunately, the project did not kick off due to the down turn of the property market in 1997.

Map 4.2 Location of Investment of FACBI



III. THE LION GROUP

When Tan Sri William Cheng Teng Tam took up his father's business in 1978, the company was only a medium-size enterprise manufacturing rubber and steel products with less than 100 employees (He 5/92: 44). Today, the company is a conglomerate with fifteen companies trading on stock exchanges around Asia, nine of them in Malaysia, and employing seventy thousand staff (AWSJ, 18/12/98). The success of Cheng in expanding his family business in such an unprecedented speed may be attributed to two factors. Firstly, he knows his subordinates well enough to assign them jobs that commensurate with their abilities and secondly, he has a sharp sense of business opportunities (He 5/92: 44).

When the Malaysian government gave the green light to invest in China, the Lion Group knew that it could not afford to be left behind. In an interview, Cheng recalled that they "went to China in 1992 to study and to observe and eventually started to invest 1 ½ years later" (Forbes 1/96: 48). Although the Lion Group started off late compared to other listed companies in Malaysia, its momentum was rapid. Their pace of investment increased dramatically in a short period. Within two years, there were already 26 subsidiaries and associated companies incorporated in China (Amsteel Circular to Shareholder dated 31 July 95, 33-41). The figure rose to 69 in August 1997 ranging from production of motor vehicles, tyres, food products, pharmaceutical, retailing to real estate (NYSP, 21/8/97)(Appendix J). It is widely believed that the Lion Group is the most successful Malaysian Company investing in China besides Kuok Group's Kerry Group (NYSP, 10/10/96).

Although the relations between the Lion Group and China can be traced back to 1986 when its subsidiary Amsteel Sdn. Bhd. succeeded in gaining a contract to export 50 thousand tons of steel products amounting to RM 35 million (NYSP, 6/11/86), the Lion Group only started investing in China in 1993. Cheng signed four MoUs with various Chinese partners on behalf of Lion's subsidiaries during the Prime Minister's Official Visit to China in June 1993 (SCJP, 16/6/93)(Table 4.2).

Table 4.2 MoUs Signed by Lion Group During P.M.'s Visit, 1993

1. To develop 2 pieces of land in Qingdao into an industrial park.
2. To manufacture "Vochelle" chocolate in Beijing.
3. To build a commercial complex and set up a Parkson Supermarket in Beijing.
4. To set up a Parkson Supermarket in Qingdao.

Source: NYSP, 15/6/93.

From the available data that have been able to assemble, the Lion Group is the 20th listed company in KLSE that has invested in China (Table 4.3). Therefore, it is considered a late-comer compared to other Malaysian firms which flocked to China after 1985. However, the Lion Group's momentum of investment was rapid after August 1993 and within two years, it had become one of the biggest Malaysian investors in China. In Jiangsu Province alone, the Group became the biggest foreign investment group having invested US$40 million in 14 joint ventures. Its joint venture Nanjing Jingcheng Machinery Co. Ltd. became the 4th largest motorcycle manufacturer in China (NYSP, 5/5/96). Although reluctant to disclose relevant figures on investment in China, Dr. Chen Soo Se, the Lion Group's Group Executive Director for China Projects, proudly said in 1997, "the figure is still growing every month."

Table 4.3 The First 25 PLCs invest in China in Chronological Order

	Name	Date
1.	FACBI(DSSB)	7/85
2.	FACB	11/86
3.	Kinta	9/87
4.	Innovest	11/87
5.	Pilecon	10/89
6.	Leong Hup	6/90
7.	Nylex	1/91
8.	KFC	6/91
9.	Ganda	2/92
10.	OYL Ind.	5/92
11.	Mamee	11/92
12.	Samanda	5/92
13.	Magnum	7/92
14.	Dunlop	9/92
15.	Sateras	11/92
16.	Kim Hin	11/92
17.	Public Bank	1/93
18.	Leader	1/93
19.	Mercury	1/93
20.	Amsteel	1/93
21.	SBC	1/93
22.	Ekran	1/93
23.	UCM Ind.	1/93
24.	Berjaya Group	4/93

Note: Amsteel is the Lion Group's holding company for China investments.
Sources: 1)NYSP, 18/6/88, 7/7/89, 1/1/91, 20/6/91, 3/5/92, 16/7/92, 12/4/93.
2)Tong Pao, 2/11/86.
3)SCJP, 29/9/87, 13/6/90, 29/2/92, 23/5/92, 21/11/92,12/11/92.
4)Business Times, 27/11/92, 4/1/93.
5)China Press, 6/1/93.

The main features of the Lion Group's investment in China are as follows. The Lion Group did not choose Guangdong and Fujian Provinces as the prime location of their ventures. Its first investment was the setting up of a departmental store under the name "Parkson" in Beijing and Qingdao in mid 1993 through its Singapore subsidiary, Lion Asia Investment Pte. Ltd. In the following year, it started to produce chocolate in Beijing (NYSP, 25/12/93). The Lion Group eventually put all its China investments under four PLCs in Malaysia, i.e. Lion Land Berhad, Angkasa Marketing Berhad, Chocolate Products Berhad and Amsteel Corporation Berhad (Amsteel). The last company became the group's controlling vehicle of all their investments in China.

Table 4.4 Number of Amsteel's Associated Companies and Subsidiary Companies in China, 1994-1998

Year	Associated Company	Subsidiary Company	Total
1994	1	9	10
1995	6	17	23
1996	9	33	42
1997	18	44	62
1998	16	41	57

Note: The figures above do not include associated companies and subsidiary companies held via Singapore Lion Asiapac Ltd.
Sources: Annual Report 1995, 1997 and 1998.

Just like other companies, after gaining a foothold, the Lion Group began to look to other areas for opportunities. This is due firstly, to rising competition in the big cities, and secondly, because of the improvement of the investment environment in the interior provinces which provide vast opportunities. According to Dr. Chua Yee Yen, Group Manager of Resource and Information of the Lion Group, the wide distribution of the Lion Group's investment in China can be attributed to the good "guanxi" (relationship) with high-ranking leaders. "In China, it is important that you can prove to the leaders that you are really committed," said Dr. Chua. However, Dr. Wu Hin Yung, Special Assistant to Group Executive Director, while agreeing with his colleague, added that "size does matter". "We have the management skill and technical know-how, and most importantly, we can bring in funds."

While many businessmen have failed to see their ventures take off in China, the Lion Group headed by Cheng has already scored a roaring success in the republic and is increasing its stake in the emerging market (Sunday Star, 29/10/95). Again, with reference to the factor of "guanxi", Cheng, who is also senior economic adviser to the Beijing municipal government, is of the view that the Chinese are very conscious of protocol, so "I always try to negotiate with the top government officials." (Sunday Star, 29/10/95)

In a later article by Cheng presented to the Singapore Chinese Business Association, he stated that, "we are preparing for international existence, and investing in China is the way to enlarge our market share." (NYSP, 1/5/96) He told the Singapore Business Times that the group has pumped about US$270 million (RM 669 million) into China since early 1992. Most of the funds have been invested in four of the group's core activities in joint ventures with Chinese partners. The major divisions are automotive assembly, tyre production, food processing and department store operations (Star, 15/8/95).

As a result of the Lion Group's massive investment programme, the group was nvolved in 69 joint ventures as of August 1997, against none in 1993 (NYSP, :1/8/97). The number of joint ventures dropped to around 50 recently after the severe est of the Asia Pacific economic crisis (Star, 28/6/99). From the list of associated and ubsidiary companies, it would appear that their focus is in 4 areas in China of which notor vehicle and retailing is an extension of their core business from Malaysia. The .ion Group was the first foreign company allowed to establish a chain of department tores in China (China Press, 25/12/93) as the retail sector was considered the most estrictive industry for foreign investors (NST, 23/10/95). The company opened the irst Parkson store in Beijing in 1993. In 1998, it operated 14 Parkson department tores strategically located in major cities (Table 4.4) and held the sixth place among he top ten retailers (Star, 28/6/99). Turnover and profit from Parkson stores in China ire growing rapidly (Table 4.6).

Table 4.5 List of Parkson Outlets in China

Name	Equity
1.Qingdao No 1 Parkson Co Ltd	50%
2.Wuhan Wushang & Parkson Enterprise Development Co Ltd	50%
3.Beijing Parkson Light Industry Development Co Ltd	70%
4.Chongqing Wang Yu Parkson Plaza Co Ltd	70%
5.Dalian Tianhe Parkson Plaza Co Ltd	60%
6.Shanghai Hengda Parkson Plaza Co Ltd	97%
7.Shanghai Ninesea Parkson Plaza Co Ltd	100%
8.Shijiazhuang Parkson Plaza Co Ltd (under liquidation)	70%
9.Sichuan Hezheng Parkson Plaza Co Ltd	90%

10.Sichuan Mianyang Fulin Plaza Co	---
11.Wuhan Wushang & Parkson Entertprise Development Co Ltd	50%
12.Wuxi Sanyang Parkson Co Ltd	60%
13.Xian Lucky King Parkson Plaza Co Ltd	51%
14.Yangzhou Parkson Plaza Co Ltd	55%

Note: Beijing Parkson Light Industry Development Co. Ltd. runs 2 outlet in Beijing.
Sources: 1)Amsteel Annual Report 1998 (financial year ended 30/6/98)
2)Lion Land Annual Report 1998 (financial year ended 30/6/98)
3)Star, 28/6/99.

Table 4.6 Turnover and Profit & Loss Account for Parkson China

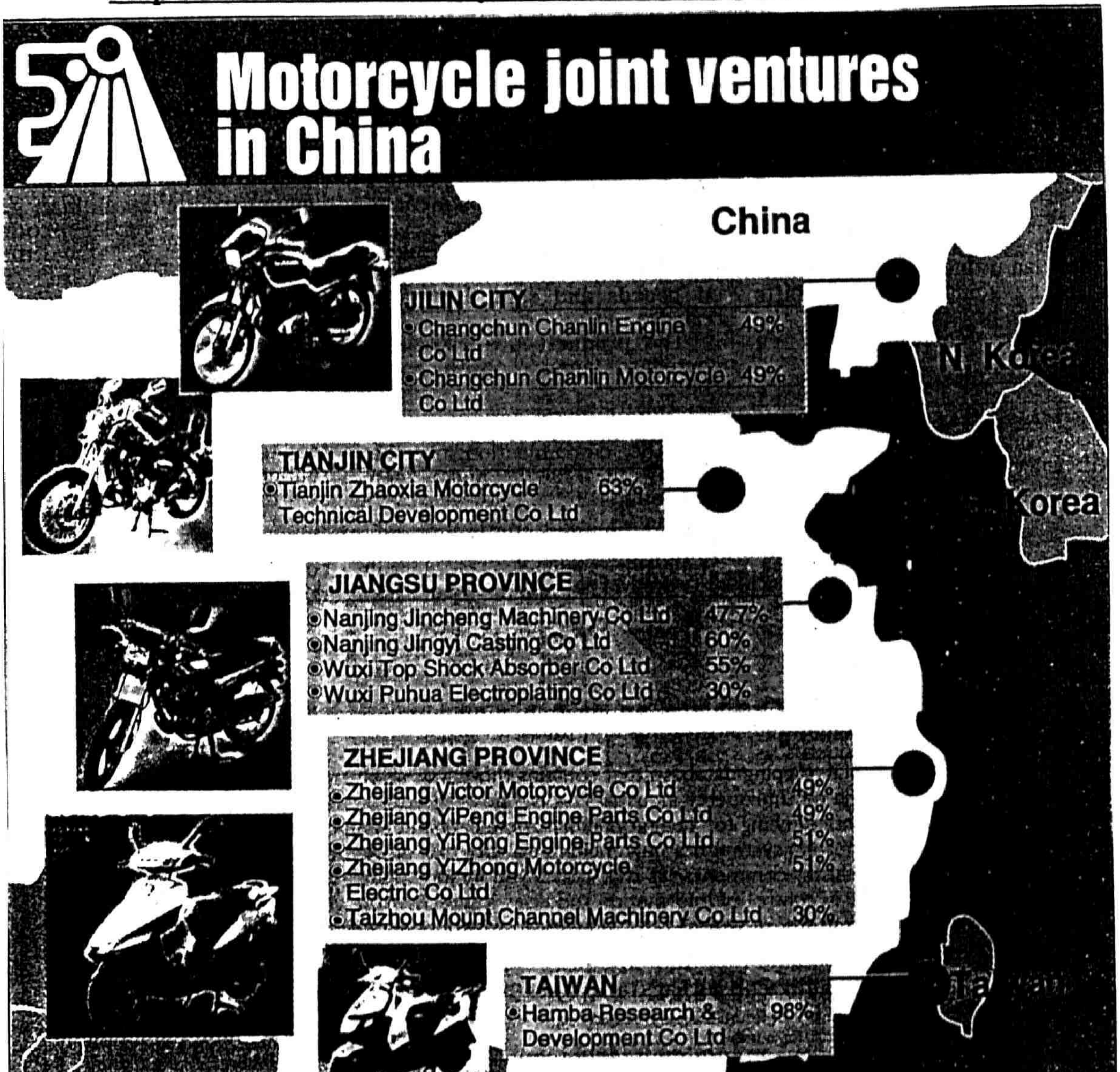
Year	Turnover (RMb)	Profit/(Loss) After Tax (RMb)	No. of Outlet
1994	106 208	(5 725)	1
1995	417 842	1 079	4
1996	771 009	27 349	7
1997	1 244 462	3 188	13
1998	2 523 350	24 840	15

Sources: Turnover and Profit/Loss figure from Star, 28/6/99; outlets figure culculated from Amsteel Annual Report 1998 and NST 19/8/99.

55% of the total investment in Lion's China was in the motorcycle division and it was one of the best performers of the Lion Group's investment in China. The division achieved 20% return on investment (Star, 28/6/99). Three of the motorcycle joint ventures, i.e. Nanjing Jincheng Machinery Co. Ltd., Zhejiang Qianjiang Motorcycle Ltd. and Changchun Chanlin Motorcycle Co. Ltd. have entered the list of the top ten motorcycle manufacturers in China (NYSP, 11/12/98). Nanjing Jincheng Machinery ranked third in 1997 in terms of sales in the China motorcycle industry

(Amsteel Annual Report 1998: 11). Another plant, i.e. Zhejiang Qianjiang Motorcycle, in which Lion holds 24.23%, was listed in Shenzhen Stock Exchange in April 1999 and became the first Malaysian joint venture company to be listed in China (NYSP, 19/3/99). The combined sales of the three companies amount to 1.1 million units and was expected to raise capacity to 2 million in 2000 (NYSP, 11/12/98). The 12 joint ventures under motorcycle division are shown below (Map 4.7).

Map 4.3 Lion's Motorcycle Joint Ventures in China



Source: Star, 28/6/99.

The Lion Group is also successful in the brewery business. When it entered the market in 1995, it went to the secondary cities and set up joint venture with local breweries. From the first subsidiary, Wenzhou Lion Brewery Co. Ltd., in which Lion holds 55% stake, the division has grown rapidly and owns nine breweries in 1998 (Amsteel Annual Report 1998)(Table 4.7) with a capacity of seven times more than the total Malaysia output (Star, 19/12/98). By capitalising on local breweries' distribution network, it succeeded in occupying the second place in total production volume in the China market (Star, 28/6/99) despite competition from around 800 breweries in China (Zhong 1997: 24).

Table 4.7 List of Lion's Breweries in China, 1998

Name	Equity	Year Acquired
1.Wenzhou Lion Brewery Co Ltd	55%	1995
2.Hubei Jinlongquan Brewery Co Ltd	60%	1996
3.Hubei Lion Brewery Co Ltd	60%	1996
4.Hunan Lion Brewery Co Ltd	55%	1996
5.Jiangsu Santai Lion Brewery Co Ltd	55%	1996
6.Ningbo Lion Brewery Co Ltd	55%	1996
7.Pingyang Lion Beer Co Ltd	55%	1996
8.Zhuzhou Lion Brewery Co Ltd	55%	1996
9.Zibo Lulansha Brewery Co Ltd	60%	1997

Source: Amsteel Annual Report 1995, 1997 and 1998.

However, the five years buying spree finally came to an end when the currency crisis hit Asia in mid 1997. For the financial year ended June 1998, the group suffered great losses. Total losses before taxes of the three companies under the group, i.e. Lion Corp. Bhd., Amsteel Corp. Bhd. and Lion Land Bhd. amounted to RM 1.517 billion due mainly to losses on trade transactions and foreign currency borrowing (NYSP, 2/10/98). For the past two decades, the Lion Group financed its expansion through bank borrowings and from capital markets and was caught flat-footed. The group proposed to sell almost half its assets, including its headquarters, Menara Lion and some of the China investments to repay its loans (AWSJ, 18/12/98).

As of February 1999, the Lion Group has divested four of the car manufacturing joint ventures in Jiangsu for US$ 64.13 million (SCJP, 30/1/99) to streamline its business operations and to reduce debts. At the last annual general meeting, Cheng said that 15% of Lion Group's assets worth RM 2.32 billion will be divested over the next six months which include two pharmaceutical companies in China (Star, 24/12/98). The Lion Group was intending to refocus in three divisions, that is brewery, retail, and motorcycle and will slowly relinquish operations which are of marginal benefit to its overall well-being (Star, 28/6/99).

From the development of the Lion Group's investment in China, the writer can conclude the following:

1) Most of the investment is related to the core businesses of the group. Before venturing into China, the core businesses of this well-diversified Malaysian conglomerate were steel, automobiles, tyres and chemicals, computers and tele-communications, food and pharmaceutical, retailing

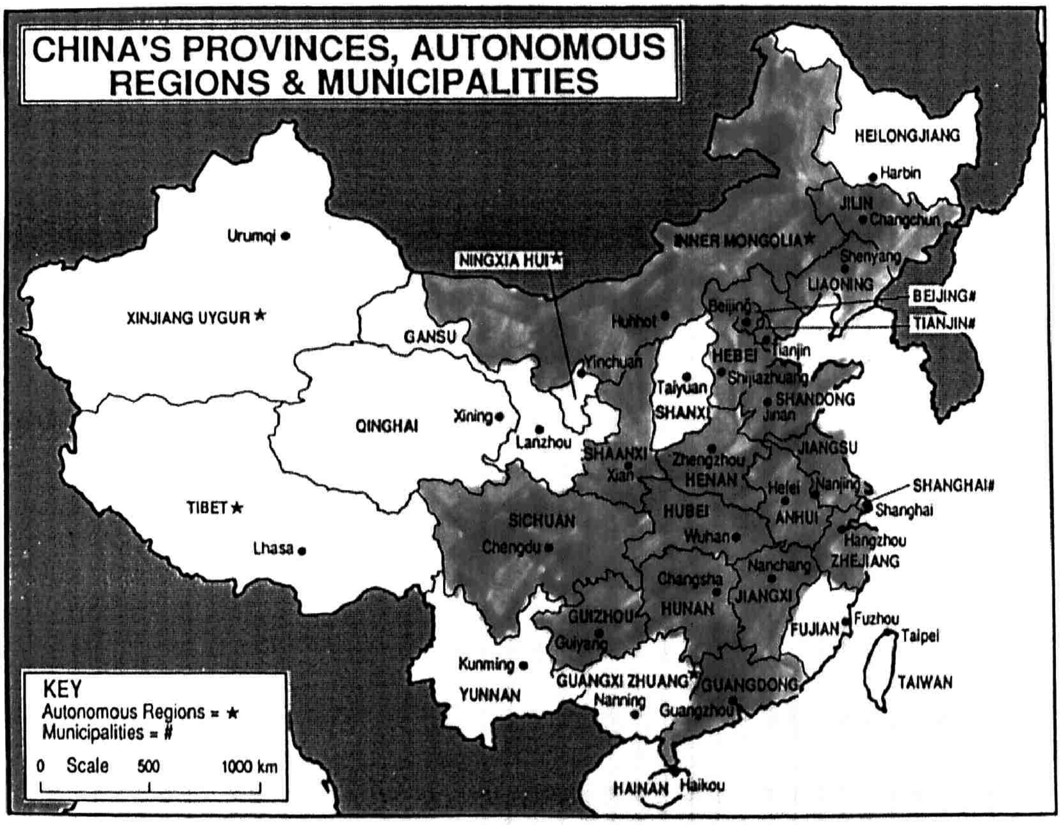
and trading, property development, and finance, insurance and servicing. As of July 1997, the joint ventures in China could be divided to eight divisions, i.e. car, motorcycle, tyres, food, brewery, pharmaceutical, retailing and property development. All these divisions were core businesses of the group except brewery. Of the three divisions the group intended to refocus, two of them, i.e. motorcycle and retailing, are the core businesses.

2) The Lion Group expanded their investment at a most astonishing pace, which represented a 29% turnover of the group for the year ended 1997 in just four years (SCJP, 14/5/97). The Malaysian operations represented 68% of the Lion Group's profit followed by operation in China 38% (Star, 22/12/95) and the China projects were anticipated to contribute about 40% to the group's coffers by the year 2000 (NST, 23/10/95).

3) China was seen as a place to increase the group's market share to fulfill its mission to become a world class conglomerate. However, unlike MNCs from other countries, its operations are not centrally controlled. Management was left to the its partners. For some of the joint ventures with state-owned companies, the Lion Group held equity below 50% except in retail operations and sent only one or two managers to oversee the joint ventures (NYSP, 10/10/96).

4) There was no specific trend of investment. Their investments appeared to have sprung up like mushrooms since its first joint venture. These joint ventures are scattered in 20 provinces and municipalities (Map 4.4), before the Asia Currency Crisis.

Map 4.4 Location of Investments of The Lion Group



IV. SOUTHERN STEEL BERHAD

In 1963, the Tan, Chuah and Choong families pooled their resources to set up Southern Iron & Steel Works Ltd. in Nibong Tebal to manufacture galvanised iron sheet (Kwong Wah Yit Poh, 24/4/94). Subsequently, the company expanded and invited NatSteel Ltd. from Singapore to provide technical support through participating in the company's equity in 1981. Hong Leong Industries (HLI) also became a shareholder in the following year by subscribing RM 4.8 million new ordinary shares. In addition to providing marketing support, HLI combined its own licence with SSB to manufacture steel bars up to a total capacity of 100 000 metric tonnes. In compliance with the New Economic Policy, the company issued 7.36 million shares to Fleet Trading and Manufacturing Sdn Bhd (FTM) in 1986. FTM subsequently transferred its entire equity to Fleet Group in August 1991. The company was converted to a public company and changed its name to Southern Steel Berhad (SSB) in September 1992 in preparation for listing in KLSE (Prospectus).

By the time SSB was listed in KLSE in 1993, it had become one of two well-diversified steel products manufacturers in the country, supplying a broad range of steel products. The steel mini-mill of SSB comprises a steel billet melt-shop, two rolling mills for steel bars and wire rods, and steel wire products and pipes manufacturing facilities which are strategically located throughout Malaysia (Map 4.5).

In November 1993, SSB went into joint venture projects in Vietnam and China. In Vietnam, the company entered into an agreement for the acquisition of a 22.6% equity interest in a joint venture, NatSteelVina (Vina), for a cash consideration of RM 5.52 million. Vina was incorporated in Vietnam for the setting up of a steel mill with production capacity of 150 000 tonnes of steel bar (NYSP, 14/11/93). In

Map 4.5 Location of Southern Steel's Investments

Souces: Southern Steel Annual Report 1997: 2

China, the company also set up Hexagon Point Sdn. Bhd. (Hexagon) with Oriental Holdings Bhd. in the ratio of 50:50. Hexagon then entered into a joint-venture agreement with Wujin Steel Rolling Factory to invest a 50% equity interest in

Wujin Qianyang Steel Ltd. (Wujin) to manufacture steel billets, wire rods and other steel products in the Jiangsu Province, China. SSB invested RM.9.9 million in the joint-venture project. According to SSB's chairman Abdullah Mohamed Yusof, the investment was part of its regional investment strategy to penetrate the potentially large market in China (Star, 18/11/93). Hexagon than changed its name to Southern Oriental Sdn. Bhd..

Although Wujin was under-performing due to tight credit control policies (Annual Report 1996: 16), SSB announced a second steel mill venture in China (NYSP, 17/4/94). The venture was a 30% interest in Southern NatSteel (NatSteel) with total investment of RM 78 million. NatSteel would set up a rolling mill with an annual capacity of 250 000 tonnes, located in the Xiamen Haicang and Xinglin Taiwanese Investment Area (Star, 16/4/94). SSB anticipated that the future steel consumption in China would rise and was looking to become a niche player in the Chinese market (Annual Report 1994: 23). The rolling mill in Xiamen reached a satisfactory level of sales and production of raber after a year of operation in 1997. In the same year, SSB took up its rights call as well as those of the Chinese partner and eventually owned 40% of the joint venture (NYSP, 31/7/97).

SSB's ventures into Vietnam and China represent "seeding" strategies which will provide impetus for future growth if they prove to be successful (Annual Report 1993: 16). It is hoped that by bolstering the regional ventures, market presence would be enhanced and would bring the Group one step closer to being a major regional player in the steel industry (Annual Report 1995: 17).

In comparson of the two China projects, Wujin and NatSteel, the latter clearly outperforms the former. Wujin has been managed by the Chinese partner while NatSteel was started up from zero by SSB. SSB attributed the poor performance of Wujin to stiff price competition and weak Chinese management. Accumulated loss since inception was RM 9.92 million after heavy provision for doubtful debts and obsolete inventory (Annual Report 1997: 13). Wujin ceased operation during 1998 and a full provision for diminution of the investment had been incorporated in SSB's accounts (Annual Report 1998: 8).

SSB's senior general manager, Lim Hong Sun, admitted that the main problem faced when investing in China is the Chinese employees' negative attitude. SSB tries to overcome the problem by employing fresh secondary school leavers and training them to become skilled workers. SSB did not face red-tape as much as some small enterprises and Lim attributes it to the good relationship with the local government. According to Lim, "Big projects have the blessing from the government. [Furthermore] we started off the Xiamen project hand-in-hand with the city government. It is better to run the whole show by ourselves."

From the experience of SSB investment in China, the writer can conclude the following:

1) The investment in China is related to the core business of the group, i.e. steel products manufacturing.

2) The investment in China is part of a so-called "seeding" strategy. SSB aims to become a major regional player in the steel industry and is

constantly looking for expansion opportunities. China and Vietnam as some of the fastest developing countries in the region can be anticipated to eventually provide a huge market for steel products.

3) Management power determines the success of the joint venture. Wujin was finally forced to close mainly due to the poor management of Chinese partner. A joint venture is more likely to perform well if the Malaysian investor has a say in management, based on the Malaysian company's longer experience and relatively successful track record in the steel industry.

V. MUDA HOLDINGS BERHAD

Muda Holdings Berhad (Muda) is involved in paper making and packaging industries as well as trading of the Group's products. It started with a small factory which manufactured corrugated cartons in 1971, with a paid-up capital of only RM 300 000. The company took over Federal Packages Sdn. Bhd. and North Malaya Paper Mills Sdn. Bhd. in July 1984 and was listed in KLSE in November 1984. It expanded its operations by purchasing and establishing related companies in the following years. After nearly 30 years of expansion since its establishment, it has become an integrated paper producer and owns 27 subsidiaries and associated companies which are scattered over Australia, China, Singapore and Britain (Company Profile: 4).

Muda expanded its' overseas bases by establishing trading offices in Bangladesh, China and Eupore at the end of 1992 through its wholly-owned trading arm Intra-Muda Corporation Sdn. Bhd. (NST, 24/6/92). The company signed an MoU with Jiangsu Tungshan Flour Mill Ltd. on June 1993 to set up a 60% joint venture to manufacture paper bags and paper packaging products in the Jiangsu Province, China (NST, 30/6/93). However, the project was shelved and investment in China did not materialize until 1994. Its' other overseas joint venture—Intrapac-Bangladesh Pte. Ltd. which was set up in April 1994, aborted the original plan to manufacture cement paper bags and corrugated boxes in Bangladesh (NST, 1/7/95). According to Muda's executive director, Azaman Abu Bakar, Muda has planned a three-pronged diversification plan. That is, moving downstream within the paper industry, expanding paper activities geographically and diversifying into property development and food manufacturing (NST, 28/6/97).

Muda Packaging Industries (Qingyuan) Ltd. (MPI) was started in early 1994 and sited in Qingyuan, Guangdong Province. At first, the venture was a joint venture between its subsidiary in Hong Kong, Intrapac Investments Limited (Intrapac) and Ji Li Property Development Ltd. of China with Intrapac holding 65% stake in this joint venture, namely, Qingyuan Minda Paper Packaging Ltd. (Minda). Muda transferred the used machine from its subsidiary to the factory in China (NYSP, 23/3/94). But when the joint venture increased its' investment, the Chinese partner quit and Intrapac took up all the remaining share of Minda and changed it's name to Muda Packaging Industries (MPI) in October 1995. Total investment amounted to RM 15 million with a capacity to produce 1 200 metric tons of corrugated boxes per month (NYSP, 30/1/96).

The construction of the factory was completed in August 1995 and commenced production in October of the same year. As part of the Group's management transfer policy, MPI is completely managed by Chinese nationals with advisory support from the Muda Group in Malaysia. As first, the company recruited 30 fresh graduates from Jiangxi in May 1994 and sent them for six months intensive training in Malaysia. After completing their training, these workers returned to China and 28 of them formed the backbone of MPI. They assisted in setting up the new plant in Qingyuan and trained another batch of workers. MPI started of with 60 workers and today it employs 120 workers. Turnover rose from RMB 10 million (RM 5 million) in 1996 to approximately RMB 30 million (RM 15 million) in 1998.

According to Lee Bun Tai, the general manager of Intra-Muda Holdings Sdn. Bhd. who in charge of MPI, the turnover represents 60% of the production capacity and the company is still trying to break even. From the interview with the researcher, he reported that, "Our loss is decreasing and hopefully we will break even in another two years time." Initially, Lee went to supervise MPI three weeks per month and now the management has been handed over to the staff in China.

Muda is planning to upgrade MPI's machinery and is eyeing new ventures in other parts of China because of the huge and attractive market. In the long run, after gaining a foothold in Qingyuan, the expansion in other parts of China will be financed locally and need not rely upon its mother company in Malaysia.

From the experience of Muda in Qingyuan, the writer can conclude the following:

1) Investment in China is related to the core business of the Group, i.e. packaging and paper making.

2) Muda went to China because of market considerations. Muda perceived the fast growing Chinese economy would promise a vast market for paper products and packaging materials. Investing overseas is part of Muda's business expansion policy, in line with the worldwide globalization trend.

3) If well trained, manpower in China will be value for money. The wage level in China is no longer low by the mid 1990's. However, with proper exposure and guidance, the young and well-educated Chinese workers progress quickly and become reliable workers who are no less capable than their fellow colleagues in Malaysia.

VI. METRO KAJANG

Metro Kajang (Metro) was incorporated on September 1979 under the name of Srijang Bena Sdn. Bhd. The company changed its name to Srijang Holdings Sdn. Bhd. on July 1987 and subsequently to Metro Kajang Holdings Sdn. Bhd. on August 1993. It is a PLC focusing on property development as well as an investment holding company with 23 subsidiaries (Prospectus).

Metro established itself as the leading property developer in Kajang by completing more than 6000 units of mixed development worth RM 265 million by 1995. The company also owns and manages a three star-rated hotel, Metro Inn, in Kajang. As part of the group's diversification programme, it ventured into manufacturing of steel furniture through a wholly-owned subsidiary, Vast Manufacturing Sdn. Bhd. The manufacturing activities commenced in April 1991 and 90% of its production is for export to United States and Japan (Company Prospectus).

In view of a world furniture market potential of RM 60 billion per annum, Metro decided to expand this division in order to capitalise on strong overseas demands. Due to the shortage of labour and escalating wages, the management decided to probe into the possibility of setting up a factory oversea with a cheaper labour costs. After looking into several countries, Metro made a decision on China. According to Lee, China's main advantage is in cheap labour costs, vast market and cultural similarity compared with countries such as Surinam.

It was understood that with a wages for manufacturing sector in Malaysia relatively low compared with other sectors, there would be difficulties in attracting sufficient labour. Many factories of the sector were forced to employ foreign labourers so as to stay competitive in the export market. The employment of disciplined and hardworking workers is a problem and things became worse after the Asia-Pacific economic crisis in 1997. The Malaysian government banned the entry of workers from Burma and Bangladesh and production costs rose. In light of this situation, Metro decided to invest in China. Metro sent its staff to investigate and study the possibilities in Shanghai, Guangzhou and Shenzhen successively but failed to find a suitable place. According to Lee Wei Kiat, Investment and R&D manager of Metro Kajang, " The cost of labour in these areas were higher than expected." (Table 4.3).

Table 4.3 Comparision of Manufacturing Sector Labour Costs

Place	cost per hour
Singapore	RM 26.6
Shanghai	RM 6.08
Thailand	RM 4.56
Peninsular Malaysia	RM 5.32
Penang	RM 7.60

Source: Singapore Employer Association, in NYSP, 11/11/98.

It is not easy to find a suitable place to set up a furniture factory. Beside labour costs, supply of raw material is the main consideration and many places failed to fulfill the requirement. The company also took note of location, prefering coastal areas for export purposes. In the middle of 1998, the company designated a place in Zangjiagang, which is located near Suzhou, Jiangsu Province.

Metro senior executive, Yoong Siew Hua explained, "We went the long way only to find that things just did not work out as anticipated. The local top official said no problem, but at the last minute, we found out that the land title was mortgaged to the bank, luckily." According to Yoong, the local government set up their own companies to deal with foreign investors and posed a lot of questions. The search for a factory site was a time-consuming process for Metro and they finally picked Kunshan, which is located in Suzhou as a suitable choice, after more than one year of searching. Metro set up a wholly owned subsidiary, Vast Furniture Manufacturing (Kunshan) Co. Ltd., to conduct the manufacturing of furniture and related products in Kunshan.

Yoong was of the view that "guanxi" does matter because it can by-pass much red tape. "We tried to approach the top officials at the very beginning." However, she complained that the Chinese tried to play around with definitions in the contracts. "Although we are all Chinese, the way of communication varies. They are not straight forward and tend to say nothing on negative aspect."

From the progress of Metro in China, the writer can conclude the following:

1) Metro was aiming for cost reduction in China. The products were initially aimed for export to the US market. Local market demand was not the reason for setting up a production base in China although the company admitted that competing in the local market in the coming future was also a consideration.

2) Bureaucratic wall is the biggest obstacle. Metro took more than a year to find a suitable factory site in China. The red tape increased production costs and created problems for the Malaysian investor.

Some conclusions can be drawn from the case studies above. This will be presented in the next chapter. The reasons for failure and success will be explored and special features of Malaysian PLC investment will be noted.