

RECIPE FOR GROWTH

THE TREASURER ASKS **RICHARD CHUTE**, FINANCIAL CONTROLLER NORTH ASIA AND MANAGER OF THE SHANGHAI OFFICE OF KERRY INGREDIENTS, ABOUT THE GROUP'S EXPANSION INTO CHINA AND LIFE AS AN EXPATRIATE IN THE FAR EAST.

BUSINESS AND STRATEGY

THE TREASURER (TT) WHO ARE KERRY INGREDIENTS (KI)?

RICHARD CHUTE (RC) Kerry Ingredients is a core business of Kerry Group plc (see box). Kerry Ingredients is a leader and one of the most technologically advanced manufacturers and innovators of ingredients in the world. We work in partnership with and add value to multinational food manufacturing and foodservice companies. We are a committed global leader in the following core technologies specialty ingredients, seasonings, coating systems and sweet ingredients. We sell about 9,000 products in more than 80 countries worldwide.

TT WHY HAS KI DECIDED THAT THE TIME IS RIGHT TO OPEN ITS SALES OFFICE IN SHANGHAI, CHINA? DO YOU HAVE ANY INSIGHTS INTO THE RISK EVALUATION PROCESS THAT SUPPORTED THIS THE DECISION?

RC Kerry has always had a long history selling products to China. Before 1998, when Kerry opened a representative office in China, it sold its products pre-importation at a Chinese port. By establishing a representative office, it served as a base in China for both local customers to liaise with the parent manufacturer and for regional employees to promote Kerry within the People's Republic of China (PRC) and gain greater market knowledge.

However, a representative office does not give you authorisation to import or sell in the local marketplace. In 2002, the representative office was closed and the trading company was established concurrently. The primary benefit of Kerry Ingredients Trading (Shanghai) Co Ltd (KITSCo) is that it can sell all Kerry Group products manufactured worldwide in local currency throughout China, rather than relying solely on importers, distributors and sub-distributors, as was the case before the company was established.

As KITSCo trades within China, the work programme that commenced under the representative office will continue under the new legal entity – that is, gaining greater local market knowledge, promoting the Kerry brand within China and developing relations with existing and potential local customers. We shall also provide a contact base within the country for local customers to view and discuss Kerry products that are manufactured throughout the world and sold by KITSCo within the PRC.

TT WHAT ARE THE IMMEDIATE GOALS OF THE KITSCo?

RC The immediate objectives of Kerry Shanghai are to continue to develop the Chinese importation and exportation business by representing the Kerry Group on mainland China; to promote the

Kerry brand and image within China, while also promoting its reputation as a world-class leader in the food industry and a professional, customer-focused and technologically superior global company; and to develop competent, professional and Kerry-oriented local staff.

TT WHO ARE KERRY'S KEY TARGET CUSTOMERS, FOR EXAMPLE, LOCAL CHINESE FOOD COMPANIES OR FOREIGN COMPANIES WITH CHINESE PRODUCTION FACILITIES?

RC Kerry's key target customers are a combination of multinational corporates (MNCs) that are already based in China and, equally as important, large local manufacturers which are leaders in the Chinese market.

TT HOW DOES THE COMPANY SEE ITS MARKETS IN CHINA DEVELOPING OVER THE MEDIUM TO LONG TERM? ARE THERE ANY PLANS TO DEVELOP MANUFACTURING CAPABILITIES IN THE FUTURE?

RC At present, the next logical step after the establishment of KITSCo would seem to be the establishment of a manufacturing facility/facilities in China and this is more than likely to happen at some point in the future.

To date, Kerry Group's growth may be viewed as being primarily acquisition-led and we are not a company that is considered shy when it comes to acquisitions, regardless of location. This is easily demonstrated by reviewing the group's existing geographical locations



RICHARD CHUTE'S CAREER OVERVIEW

- **2002** Financial Controller North Asia & Manager of the Shanghai Office, Kerry Ingredients.
- **2000-2001** Trinity College Dublin MBA (one year full-time programme).
- **1999-2000** Kerry Ingredients, Asian Divisional Finance, Johor Bahru, Malaysia.
- **1996-1999** Kerry Group Plc, various Head Office accounting roles, Qualified ACCA.
- **1995** Graduated with Bachelor of Commerce (Hons) from University College, Cork, Ireland.

across the world. An acquisition in China would not only consolidate the group's current position but also provide a local manufacturing base from which to grow.

However, the decision to either 'buy' or 'build' will be an important one in China. As with all dilemmas within this area, a strategy to 'build' initially affects the pace of growth in the medium term but is still a route to be considered to reach our long-term strategic objectives. An acquisition strategy speeds the growth process but the principal issue in China would be sourcing a business that is suitable and compatible to Kerry and its long-term strategy.

COMPANY ADMINISTRATION

TT **COULD YOU DESCRIBE BRIEFLY THE MAJOR MILESTONES INVOLVED IN ESTABLISHING THE CHINESE COMPANY, FOR EXAMPLE, SETTING UP ENTITY, REGISTRATION FOR LEGAL, TAX PURPOSES, OPENING BANK ACCOUNTS, IMPORTING OFFICE EQUIPMENT AND THE LIKE?**

RC As mentioned above, KITSCo is a Chinese legal entity. We are based in WaiGaoQiao Free Trade Zone in the Pudong District of Shanghai, although we also have a 'downtown office' in the city of Shanghai.

The milestones in establishing a company similar to KITSCo in China are as follows:

- registered legal name confirmation;
- application for business licence;
- application for enterprise code and seals;
- foreign exchange registration and opening bank accounts;
- capital verification;
- business licence issuance; and
- taxation registration, including registration with customs, statistics bureau, bonded markets and the like.

TT **DID YOU ENCOUNTER ANY PARTICULAR PROBLEMS OR COULD YOU OFFER ANY ADVICE TO A MANAGER UNDERTAKING A SIMILAR TASK?**

RC Few problems were encountered with the process and any that arose were easily surmountable. The principal issue with the process was the time it took to complete. It took a number of months to go through the cycles of establishing the legal entity, far longer than we first envisaged, and the whole process was more time-consuming than would be the case for a similar exercise in another Asian country.

TT **IS THERE A SIGNIFICANT ONGOING LOCAL COMPLIANCE BURDEN ASSOCIATED WITH THE OFFICE, FOR EXAMPLE, REPORTING, AUDIT, EXCHANGE CONTROLS AND THE LIKE?**

RC Local compliance is similar in form and practice to that of other jurisdictions, except it could be considered rather more bureaucratic. Similar to any other trading company in the world, statutory/ taxation accounts are audited by the local authorities, and monthly taxation and VAT returns are made to local authorities.

We also need exchange authority approvals on money transfers, payments and conversions, and have to produce some monthly statistic reports.

There is some administration connected with importation of goods into China, such as individual custom declaration forms for each shipment, prescribed quarantine approvals and so on.

FINANCE AND TREASURY

TT **HOW DOES HEAD OFFICE MONITOR YOUR FINANCIAL PERFORMANCE BOTH AT REGIONAL AND GLOBAL GROUP LEVEL, FOR EXAMPLE, THE TYPE OF REPORTING, LEVEL OF DETAIL, FREQUENCY, ANY COUNTRY-SPECIFIC REQUIREMENTS AND THE LIKE? WHAT KEY INTERNAL CONTROLS ARE IN PLACE?**

RC Performance within Kerry is monitored at site level, where applicable at strategic business unit, divisional and at group level by means of a mixture of financial and non-financial benchmarks and indicators. Site levels would invariably complete summary and detailed weekly reporting for their own management purposes; detailed monthly accounts are prepared and consolidated throughout the group along with year-end financial accounts. Internal controls are to the highest standard throughout the group and are based on tested systems, policies and procedures. The group has an internal group audit department and is audited worldwide by one of the 'Big 4'.

TT **AS THE TREASURY FUNCTION IS CENTRALISED, IS THERE ANY ADDITIONAL REPORTING TO A REGIONAL OR HEAD OFFICE TREASURY? HOW IS THE OFFICE FUNDED, BEARING IN MIND POTENTIAL ISSUES WITH INTER-COMPANY LENDING IN CHINA? WHAT TREASURY SERVICES DOES YOUR GROUP TREASURY PROVIDE TO THE SHANGHAI OFFICE, IF ANY?**

RC There is some additional reporting to treasury on a pre-determined timetable.



KERRY GROUP OVERVIEW

- was launched as a public company in 1986;
- is listed on the Dublin and London Stock Markets;
- has a current market capitalisation of €2.75bn;
- is headquartered in Tralee, Ireland;
- employs more 18,000 people in manufacturing, sales and technical centres in Europe, North, South and Central America, Australia and New Zealand, and Asia Pacific;
- is a global leader in the food industry and markets, providing over 10,000 food, food ingredients and flavour products to a wide customer base in more than 80 countries;
- the Kerry Group business is managed by four main divisions: ingredients, foods, flavours and agribusiness:
 - Kerry Ingredients has grown to become the world's largest and most technologically advanced manufacturer of speciality ingredients;
 - Kerry Foods, the consumer foods division, based in selected European markets, manages many household brands. The UK product portfolio includes Wall's, Richmond, Mattessons and Homepride.
 - In 2002 Mastertaste was launched, a new global flavour division headquartered in Chicago, USA. Mastertaste is focused on becoming the premier flavour supplier dedicated to food and beverage markets; and
 - Kerry Agribusiness centres on Irish milk production, producing fresh milk products and providing support to dairy farmers.

KITSCo is funded by a combination of equity and debt. Inter-company lending in China is possible but requires approval by the State Administration of Foreign Exchange (SAFE), as do many other banking transactions. Once approval is granted, which is based on supporting documentation, tax will be imposed on inter-company loans that impose higher interest rates than those of the market, as it could be viewed as repatriation of profits. Many MNCs decide on interest-free, inter-company loans.

TT WHAT BANKING SERVICES DO YOU USE LOCALLY IN CHINA, FOR EXAMPLE, RENMINBI ACCOUNTS, US DOLLAR ACCOUNTS, ELECTRONIC BANKING AND SO ON? DO YOU USE A CHINESE BANKING PROVIDER OR A BRANCH OF A GLOBAL OR REGIONAL FOREIGN BANK?

RC Kerry Shanghai uses a combination of renminbi and foreign currency accounts in China. Electronic banking is possible for some currency transactions, but it is worth bearing in mind, because of the requirement of SAFE approval (with supporting documentation) for currency conversion, foreign funds utilisation and the like, that the process becomes more paper-based.

TT KERRY SHANGHAI BANKS AT A BRANCH OF A GLOBAL FOREIGN BANK. WHAT METHODS FOR MAKING OR RECEIVING PAYMENTS DO YOU USE WITHIN CHINA? ARE THE MAJORITY OF YOUR TRANSACTIONS IN LOCAL CURRENCY OR DO YOU USE A CONVERTIBLE CURRENCY SUCH AS US DOLLARS FOR SOME PAYMENTS?

RC Telegraphic transfers, Giros and cheques would be the principal financial infrastructure that we and our customers would use when conducting business in China.

As KITSCo trades in both foreign currency and renminbi, our transactions are evenly distributed between local and foreign currencies. The renminbi is closely pegged to the US dollar and is easily convertible with proof of invoices for overseas purchases in a foreign currency. As mentioned before, all conversion payments are authorised by SAFE before any transaction is completed.

CAREER AND PERSONAL PERSPECTIVES

TT WHAT ASPECT OF YOUR JOB DO YOU FIND MOST CHALLENGING? AND WHICH THE MOST REWARDING?

RC The most challenging and rewarding aspect of my job is working within the environment of foreign culture. Although it can be testing because of its unfamiliarity, the challenge of working in such an environment can be very rewarding.

TT YOU HAVE WORKED FOR KERRY OPERATIONS IN OTHER LOCATIONS IN ASIA AND EUROPE. HOW DO YOUR EXPERIENCES OF WORKING IN CHINA COMPARE WITH THOSE ENCOUNTERED WHILST BASED IN OTHER ASIAN COUNTRIES?

RC The experience of China is unique to that of the work I completed in other Asian groups, which varied from working in an established manufacturing site to projects in newly acquired business. The work I completed in other Asian countries was more concentrated in the aspects of finance, law and regulation. In China, I am still involved in these support and infrastructure areas, but I am also required to be much more business focused. My role is highly commercial and includes a remit for sales management and local strategy – in fact, all the initiatives that are going into building a viable and successful company here in Shanghai.

TT WHAT ADVICE WOULD YOU GIVE TO AN EXPATRIATE FINANCIAL EXECUTIVE THINKING OF TAKING UP A POSTING TO CHINA OR OTHER FAR EAST LOCATION?

RC I would recommend people to work abroad for a number of years, particularly during the earlier period of their career, as such an experience can shape your decision-making process, and increase your business knowledge, awareness and acumen. Working in Asia is a unique experience and one that is very different to working in North America or Australia. Living, working and travelling in Asia can be challenging but, invariably, with a positive attitude, all challenges are surmountable and achievable, and lead to great rewards and satisfaction.

TT YOU TOOK TIME OUT FROM YOUR INTERNATIONAL CAREER TO STUDY FOR AN MBA. HOW HAS THAT HELPED YOU IN YOUR CURRENT ROLE?

RC In 2001, I completed an MBA at Trinity College, Dublin. The MBA was a 12-month, concise programme structured towards general management, with an international orientation, while also offering the invaluable experience of completing a nine-month external company project that ran concurrently to classes and team work.

Since completing the MBA, I believe I have benefited from it in my day-to-day work, as it gave me a broader and deeper knowledge within the areas of strategic and international management, assisting in thought process and decision-making while working in a team environment. The Trinity MBA is mainly attended by international students or students who have international working experience so it would have reinforced my previous experiences of working in a multicultural environment.

TT WHERE WOULD YOU LIKE YOUR OWN CAREER TO TAKE YOU NEXT?

RC I enjoy working in the area of establishing companies and business both from a legal and financial perspective, and from a commercial standpoint. I should like to continue working in this area, wherever in the world that may take me.

Richard Chute is Financial Controller and Manager of the Shanghai office of Kerry Ingredients (North Asia).
chute@ireland.com
www.kerrygroup.com

KERRY

KERRY GROUP FINANCIAL HIGHLIGHTS

- In 2002, turnover of €3,755m and operating profit (before exceptionals) of €305m.
- Geographic source of 2002 turnover: Ireland 37%, Europe (excluding Ireland) 34%, Americas 25%, Asia Pacific 4%.
- Geographic source of 2002 operating profit: Ireland 21%, Europe (excluding Ireland) 36%, Americas 39%, Asia Pacific 4%.
- Quoted on London and Dublin stock exchanges.
- In May 2003, placed \$650m senior notes with US investors to repay existing debt.