



China as a Location

Why are you in China and not in India?

There are several good reasons for this:

- ✦ We feel that the Indian market has become overcrowded which has placed inflationary pressures on wages. Eventually these pressures will affect the rates charged to clients. As an early adopter in China we feel we can provide better long-term prices as the market is relatively uncrowded – at present the supply of IT graduates easily exceeds the demand.
- ✦ We also appreciate that many of our clients have invested heavily in outsourcing to India. We feel that no country currently used for farshore outsourcing is completely free of risk (political, geological or meteorological) and we want to be able to offer an alternative. We determined that China is the most obvious alternative to India and recent reports from organisations such as ATKearney back this up.

A recent Gartner report said that the Chinese were not good technical innovators. Doesn't this worry you that you won't be able to find high-quality staff?

The Gartner report simply doesn't bear out our experience in Hangzhou. Within the Hangzhou High-Technology Zone Nokia, Samsung, UT Starcom, Matsushita and Alcatel all have R&D facilities in areas such as Integrated Circuit Design, 3G Mobile telephone technology and software development.

Why Hangzhou?

We chose Hangzhou because it was the best fit we found in China based on the following criteria:

- ✦ Quality of Life: Hangzhou is regarded as a "Heaven on Earth" by the Chinese and is a popular tourist city with good infrastructure.
- ✦ Size of Resource Pool: Hangzhou has a population of over 6 million people and its universities produce 13,000 IT graduates annually. As it is an attractive city it also makes it much easier to encourage people to relocate to Hangzhou – 10% of our Hangzhou workforce has been attracted from other areas. These include Japanese speaking staff.
- ✦ Good Infrastructure: The Hangzhou High-Technology Zone has been created as "Silicon Valley in Paradise". The government continues to invest large sums of money into Hangzhou's infrastructure.
- ✦ Cost of Resource: The cost of employment and likely wage inflation are lower than in the financial centres such as Beijing, Shanghai or Guangzhou, typically 30-40% less.
- ✦ Transport Infrastructure: Hangzhou is within 3 hours of Shanghai by road or train, within 3 hours of Beijing, Guangzhou, Hong Kong, Tokyo and Seoul by air – all of which can be reached directly from Hangzhou's own airport.
- ✦ Geologically & Meteorologically Stable – Hangzhou does not suffer from adverse weather, earthquakes, floods, drought or any other extreme forces of nature.

Where is Hangzhou? Is it easy to get to?

Hangzhou is located on the east coast of China some 200km south of Shanghai. From Asian locations there are many direct flights into Hangzhou airport. For people coming from further afield Shanghai and Hong Kong serve most common locations in the world with direct flights and from there it is either a 2½ hour car journey from Shanghai or a 2 hour flight from Hong Kong to reach Hangzhou.

SSS China - Frequently Asked Questions



Are you considering any other locations?

We opened our first office for 100 people in Hangzhou in January 2004 and a dedicated DR site in the Binjiang district of Hangzhou in May 2004; and due to ever growing demand a new 150 seat hi-tech development centre will be on-line for Q1 2005.

Planning for an office in Dalian in North-East China is now complete and scheduled for a mid-2005 opening. Dalian's history has led it to have a high percentage of Japanese and Korean speakers which would better enable us to serve the market in those two countries.

Aren't you afraid that the Chinese Yuan (RMB) might be revalued against the US Dollar?

Not really – most currencies are subject to fluctuations, we are in the fortunate position that at the moment the RMB is pegged to the US Dollar. Until recently, we have only done business with US and UK clients from our UK offices, the majority of SSS' business being in Sterling which, over the last couple of years has gone from an Exchange rate of £1=\$1.40 to the rate at time of writing to £1=\$1.94 Invoicing can be performed as per client preference in GBP or USD.

With offices in the UK and US, the majority of the monthly costs are in paying the staff rather than paying for the infrastructure. In China, the depreciation on our new offices is more significant than the salary bill. As we have already paid for the infrastructure of the existing offices these charges would be unaffected by a current exchange rate move.

Whilst the above is not a particularly concise answer it does cover the basic points that: we can't predict if/when/how far the exchange rates might vary but that is the same for every currency we, and our clients, do business in. We do not anticipate any major problems for a modest strengthening of the RMB.

Company Issues

What work are you actually doing in China?

SSS China actually performs work for both SSS group's IT practice and its BPO practice.

For the IT practice we are working for three clients at time of writing providing services which consist of:

- ✦ Software development (distributed and mainframe)
- ✦ Software testing and test management
- ✦ Operations support
- ✦ Production systems support
- ✦ Database administration
- ✦ Citrix Metaframe consultancy
- ✦ System hosting
- ✦ Disaster Recovery services.

For the BPO practice we are working for one Investment Banking client providing services in:

- ✦ Front Office/Back Office Reconciliations
- ✦ Manual trade processing
- ✦ Prime Broker Interface instructions
- ✦ Prime Broker Middle Ops & Prime Broker Reps



How are you managing the operation?

Since establishing its first office in Liverpool in 1995 we have followed the same model for every subsequent office opening which is to seed the office with existing SSS staff to ensure that the culture that has been key to our success is planted therein. The Chinese operation is no different; particularly as we want to make it clear to our customers that, even though we are in China, we are still a British company and are managed in the same way as our other entities. The expatriate staff in China include a member of SSS' Executive Management group responsible for SSS group strategy and overall responsibility for Asia and a General Manager responsible for the operations of the office and ensuring that the forming company structures meet our corporate goals. SSS' Technical Services Manager and an Infrastructure analyst were also expatriated to ensure that the network and its management follow the standards of the UK. We also have expatriate team leaders working with our first IT teams and our BPO teams.

How are you transitioning work to China?

We have put a great deal of effort into our transition and communication processes to ensure that we continue the success that we have seen since we started operations.

For the BPO practice, all of the work we do has been analysed and deskilled by our Business Analysts working from our Liverpool office, the work has then been performed by BPO clerks in the Liverpool site and, once stable, the work is transferred to China. All of the work we do in the BPO field is closely monitored for defects and throughout this process we have showed consistently lower defect rates than the clients from whom the work was transitioned. Our first group of Chinese clerks received training onsite in Liverpool but subsequent arrivals have all been trained onsite in Hangzhou.

For the IT practice we have typically brought SSS staff from the UK to train up new teams of people and to monitor their progress. For some teams this is not possible, such as a 24 hour production support team where it would have been impossible to bring staff out to perform the training without potentially impacting the production support service that we provide. We will bring people to the UK for training and we will send people from the UK to train where necessary.

Technical Issues

Is the infrastructure robust?

Yes, it is. The common infrastructure items are:

- ✦ Water – no issues
- ✦ Gas – no issues
- ✦ Electricity – there are issues within China with a shortage of electricity – particularly in the hottest summer months of July and August. Parts of Hangzhou, mostly residential, do suffer daytime power cuts when the weather is hottest but none of these have affected SSS as:
 - ♦ We have two lines of power from two substations supplying our existing office. The government have guaranteed never to simultaneously switch off both lines.
 - ♦ As further assistance from the government, they have just paid for an 800kW generator to be installed in the event of unforeseen power cuts to both lines. It is part of the commitment the government are making to encourage high-tech industries to invest in Hangzhou.
 - ♦ The government are also building power stations to catch up with the demand caused by the rapid growth of China's economy. It is expected to resolve the problem by 2006.
 - ♦ Further details can be found in our document SSS China – Power Provision.
- ✦ Communications – no issues. We use a mixture of leased line and Internet VPN across multiple carriers to connect to our clients, the solution is robust.



How do you ensure security?

We ensure the integrity of our staff by means of background and reference checks. All Chinese nationals have a permanent record which holds full details of their employment and educational history. Our staff are legally bound by confidentiality agreements (both SSS and client specific if required).

Besides being manned 24x7, our offices are protected by an Identity Card based electronic access control system, digital CCTV monitoring and intruder alarm connected to the Police.

In our Hangzhou office, our communications equipment is housed in a third party data centre (located in the same building immediately below the SSS office) which has 24 hour security. SSS equipment racks are secured for authorised SSS employee access only will alert SSS staff if illegally accessed and are covered by our own CCTV system. All communications leaving the racks are encrypted with a minimum 168-bit 3DES encryption. Remote access to our systems is also protected by use of RSA Security's SecurID tokens.

Our infrastructure has been audited and approved by one of our investment banking clients.

So you outsource the hosting of your servers and telephony equipment to a third-party in China. Wasn't that a big risk ?

Actually, no. We chose to outsource our hosting specifically to reduce the levels of perceived risk of being in China, as well as the obvious cost savings by doing so as the data centre is in the same building as SSS. We believe this approach enhances our security because:

We located the data centre service (Silk Road Technologies) by means of their relation with security supplier Checkpoint – one of their many security relationships.

We are working with an established player in the field of network security that has links to the Public Security Bureau (Chinese equivalent of the police) and the Ministry of Information Industry (SRT houses servers for both).

For more details of SRT's data centre see our document *SRT - Offerings*

Is connectivity prohibitively expensive?

No – we are currently supporting three clients in Hangzhou. We have one leased line to one of the clients but both the backup to that leased line and all of the connectivity to two of our clients is by Internet VPN. Security is maintained by means of strong encryption.

At the start of any new relationship VPN can be used and is an ideal medium to perform a pilot project. Evaluation into the use of a leased line is required should the size of the relationship grow. Typically our client bases have locations in Asia and leased line connectivity is in to one of these hubs thus making connectivity as cheap and effective as from any other SSS location.

Legal Issues

What's the situation with Intellectual Property Rights?

China is well aware of its reputation for IPR theft and is keen to take action to address this as they see it standing in the way of its continued economic growth. Since China's entry into the World Trade Organisation in 2001 they have passed stringent laws and have repeatedly expressed their desire for these new powers to be used. Already there have been cases of IPR theft that have led to convictions. For a full statement on IPR protection read our document – *IPR Legal Statement*.

SSS China - Frequently Asked Questions



Isn't there a lot of corruption in China? Aren't western companies very vulnerable to being 'ripped off' as they don't understand the ways of doing business in China?

Certainly there are risks of this that might affect Western companies in China. The main risks are with a poor choice of partner if companies enter into a joint venture or possibly in dealings with unscrupulous potential clients.

SSS China is a Wholly Foreign Owned Enterprise with SSS Ltd. in the UK as sole shareholder. Therefore we have no joint venture partner.

All of our clients are currently international companies so we face the same challenge with these clients as all of the other SSS group of companies do.

Are there any issues using encryption? Do you have to hand encryption keys to the government?

No – you can (and we do) use 168-bit 3DES encryption. You can buy encryption devices which are legally imported from USA (e.g. we use Avaya VSU VPN devices for site to site and remote user to site connectivity with RSA Security SecurID tokens).

We employ Citrix Metaframe to access our largest client's systems; they are employing 128-bit encrypted SSL Citrix traffic over a 168-bit encrypted link with SecurID authentication.

There is no requirement to hand keys to the government as a matter of course but, just as in the USA and UK, our technical staff could be obliged to co-operate with the police and security authorities as part of a criminal investigation.

People Issues

What are the English language skills like?

Good, and getting better. All graduates have to pass at least CET grade 4 English but the majority of our staff actually have grade 6. English majors have to pass grade 8. The standard of reading and writing is quite high but often people lack confidence with spoken English which is why our in-house English teacher focuses mainly on spoken English with specific skills such as using the telephone and giving presentations. This area will only improve in future years as the government introduced English to the curriculum of all primary schools in the 1990s.

What other language skills are available?

The main language availability is English and, of course, Mandarin Chinese. However there are a number of Japanese and Korean graduates in Hangzhou as well as a large number of Cantonese speakers. When we do open an operation in Dalian our access to trilingual Mandarin/Japanese/English and Mandarin/Korean/English speakers will significantly increase.

If resources are able to move to SSS quickly, will they equally leave at short notice to join another firm?

We have similar legal protection and notice periods as we do in other countries so this shouldn't be an issue. Additionally western firms are highly regarded (specifically American and British) and have an attraction and retention quality unmatched by any other firms including Indian, Japanese and Chinese.

SSS China - Frequently Asked Questions



Many staff quote waiting for their end of year bonus as a reason for waiting to join SSS, given this situation do we expect they will leave SSS after SSS bonus time?

This is a problem not dissimilar to that faced by most of our Investment Banking clients in the past...

People are on fixed period contracts (initially two years for most staff) and we maintain a good dialogue with staff with checkpoints at three months (the end of their probation), one year from the contract signing date (when pay reviews are carried out). We generally offer people new two year contracts at the one year point to ensure that people can't leave without giving proper notice by just letting their contracts expire.

The issue the question addresses isn't that people wait until they get their annual bonus and immediately look for another job, it is that people may, not unreasonably, be reluctant to change jobs just a couple of weeks before they are due to receive an annual bonus from their current company. If there is more than a few weeks before they are due to receive their bonus this reluctance fades quite quickly as people realise that they would probably lose the opportunity to join us if they make us wait too long.

We do not see this item as an issue.

How do you ensure people have the educational qualifications you claim?

Once staff join we can check their personal files (every Chinese national has one) that allows us to validate their employment history and their educational record. Anyone found to have falsified their application to us will be dismissed.

Miscellanea

Will my mobile phone work?

China has two mobile phone networks, both of which use GSM1800 so a dual band European phone or a triband phone will work – China Mobile has extensive roaming agreements with foreign mobile phone operators and no issues have been encountered by visitors.

What's the food like?

China varies in elevation from the top of Mount Everest to the Turpan Depression which is 154m below sea level. The food in Hangzhou varies over a similarly wide range. At the heights there are some very fine establishments including Chinese restaurants from every area of China as well as Italian, Indian, Thai, Asian Fusion, Japanese and American – many of these would be perfectly at home in London or New York. At the other end, you can have a pretty good meal with a bottle of beer for 50¢ US – there may be more risks attached to the latter however. The high-end establishments obviously have their reputations to maintain and are extremely conscious of their hygiene. From the personal experience of SSS' ex-pats there have been very few problems despite the range of establishments visited.

Are there any good golf courses nearby?

Yes – there are some excellent courses in the region. One popular course is the nearby [Fuchun resort](#).

What about CMM?

The idea of using CMM as a reference point for a partner in outsourcing business was brought forward and developed by the Carnegie Mellon University. A CMM accreditation can therefore be used to assess the capabilities of unknown quantity potential vendors. It should also be used by companies to determine their own position and to choose an outsource partner of similar processing maturity or typically slightly higher processing maturity to add extra but not undue rigour to its mode of operation.

SSS China - Frequently Asked Questions



SSS has assessed its own capability maturity level at CMM level 3 and this is in line with its entire current client base. The requirement for accreditation is currently seen by SSS as an unnecessary cost which inevitably is passed on to the clients.

SSS' experience, knowledge and understanding of IT and BPO is evident from its continued long term relationships and numerous awards for outsourcing competence and efficiency. CMM is an all or nothing capability statement and requires its accredited vendors to comply with many different facets of business procedure regardless of its relevance to the organization; this in turn adds inevitable extra process and procedure in areas deemed un-important or an undue overhead.

Notwithstanding the current position, SSS is committed to providing an unparalleled level of service to its client base and should this require maturing with clients along a recognized accreditation path this step will be willingly undertaken, Indeed SSS' in-house training team have performed CMM training for clients and this remains a training delivery competence.

Where can I find more information?

There is more information about SSS available at our website: www.sssworldwide.com or you can email businessdevelopment@sssworldwide.com.