

Market and Recent Developments

2003 was a difficult year for the market due to the untimely combination of a depressed global economy and the outbreak of SARS. Travel limitations meant that deals were put on hold until the SARS crisis passed. However, 2004 has produced a very different climate. With SARS eradicated, for now at least, optimism has returned to the market, and normal business has resumed. Some firms have reported almost a 50% increase in workload during the first four to five months of the year. Activity in the area of equity capital markets is representative of this trend. In 2003, there was only one significant IPO, China Life, but, says one lawyer, "work went through the roof", in late January 2004. Many law firms even report having to turn work away.

The growing Chinese market drives much of the work in Hong Kong, which entered into a bilateral free trade agreement with the mainland in 2003. The Closer Economic Partnership Arrangement (CEPA) took effect on 1 January 2004. The agreement gives Hong Kong-based businesses preferential treatment when they are investing in the mainland. For example, under the terms of CEPA, China has agreed to eliminate tariffs on certain goods produced in Hong Kong.

Substantial consolidation is expected in the banking sector over the coming months. The Hong Kong Monetary Authority has declared the island "over-banked". Small banks are the most likely to suffer.

The Intellectual Property Rights Protection Alliance has been formed to fight counterfeiting and piracy. Run by Hong Kong Customs & Excise, and supported by law firms and holders of intellectual property rights (IPRs), the alliance aims to encourage greater co-operation between government officials and IPR holders in these matters.

Private equity is still in its infancy in Hong Kong, and is estimated to be ten to 15 years behind the US and UK in terms of development. One lawyer compared activity in this area to a "tide coming in and then going out". In other words, it has lacked consistency. Private equity funds had targeted the market in the mid-1990s, but quickly lost interest after the financial crisis in 1997. There have been signs that it is coming back to life, but US funds are still nervous. Instead, private equity houses have focused their activities in South Korea, Japan and Australia, where there are larger conglomerates.

Hong Kong still lacks competition/anti-trust legislation, and it is the only major financial centre without such provisions.

Hong Kong's political situation is growing more delicate. Currently, the island exists under a "One China, Two Systems" policy, which allows it to retain its democratic status, even though it is now part of communist China. However, there are signs that Beijing is beginning to exert greater political influence in Hong Kong, announcing that it will not allow the people to directly elect its next leader. This provoked a massive pro-democracy demonstration in June 2004. Despite this, pro-Beijing parties currently hold 34 out of the 60 seats in the Legislative Council, but this may have more to do with the fact that under the current electoral system, only half the seats in the council are elected by popular vote.

Legal market

Hong Kong is the traditional business hub of the Far East and, as such, the legal market is made up of US (both West and East Coast), English, Australian and domestic law firms. The level of specialisation varies from firm to firm, with some choosing to offer clients a full service, while others have chosen to focus on higher value corporate or finance-related work. The mainland Chinese market is growing in importance for every law firm based in Hong Kong. Anglo-Saxon firms are realising that there is an increasing need to hire more Chinese-trained lawyers, who not only have international know-how, but are also able to understand and work with Chinese documentation, speak Mandarin and are familiar with the maze of complex regulations on the mainland.

There is no change at the top of the rankings table this year, with Baker & McKenzie (see Global 50 Portrait for more information), Johnson Stokes & Master and Allen & Overy (see Global 50 Portrait) ranked first, second and third respectively. Johnson Stokes & Master is noted for being one of the only firms in the market able to offer clients a genuine full service, with expertise in areas such as maritime and shipping, and labour law. It also has one of the strongest restructuring and insolvency, and dispute resolution teams in Hong Kong, receiving a leading ranking in both.

There are some significant changes in the position of the firms immediately below the top three in the table. Linklaters has jumped to joint fourth place this year from eighth position. The firm gained a recommendation for corporate real estate and a leading recommendation in the new category of equity capital markets. It has also maintained its leading ranking for M&A. However, the firm's corporate star, Nick Rees, has recently returned

to the London office. Clifford Chance increases its ranking this year by one place into sixth overall. It also picks up a highly recommended ranking for equity capital markets. The firm is also highly recommended for private equity/venture capital; it is regarded by others in the market as one of the few firms in Hong Kong to have devoted energy to building expertise in this area (see Global 50 Portrait). DLA, Richards Butler (in tenth place) and Morrison & Foerster are the other firms singled out for their strong private equity/venture capital practices.

Freshfields Bruckhaus Deringer, also in fourth place, maintains an impressively consistent practice in all areas, with particular strengths in banking & finance, capital markets, M&A and equity capital markets (see Global 50 Portrait). Herbert Smith shines in the areas of dispute resolution and M&A. In the case of the latter, the firm's ranking was promoted to leading (see Global 50 Portrait). Partner Andrew Tortoishell is supported by an increasingly strong corporate team that includes Tim Steadman, who recently acted for Harbin Brewery Group on its takeover by Anheuser-Busch (represented by Freshfields' Robert Ashworth). The deal is said to be the first hostile takeover in the Chinese market.

Deacons and Lovells complete the PLC Which Lawyer? top ten law firms in Hong Kong. Deacons is particularly strong in corporate real estate, intellectual property and telecommunications. Lovells is one of only two firms in the top ten to achieve a leading position for intellectual property. The firm also has one of the largest China practice groups in Hong Kong and counts China Mobile, one of the biggest telecoms operators in the world, as one of its key clients (see Global 50 Portrait).

Simmons & Simmons continues to dominate the market in the area of labour and employee benefits due, in large part, to the outstanding reputation of partner Fiona Loughrey (see Global 50 Portrait). Bird & Bird's international reputation for intellectual property, life sciences and telecoms work is replicated in its Hong Kong office (see Global 50 Portrait). It is one of only three firms with a leading ranking for intellectual property (Lovells and Baker & McKenzie being the others).

Ince & Co, Stephenson Harwood & Lo, Clyde & Co, Holman Fenwick & Willan and Ng & Shum are best known in the market for their expertise in maritime and shipping. This is an area of practice that is growing in importance, again due to mainland China increasing its shipbuilding capacity, which, in turn, is generating more ship finance work in Hong Kong.

Australian law firm Mallesons Stephen Jaques recently achieved one of the most significant strategic mergers to have taken place in the Hong Kong market for some time. It officially teamed up with local firm Kwok & Yih, which is held in high regard in the domestic market for its expertise in M&A, IPOs and equity capital markets. The merger gives Mallesons new corporate capability in addition to its already strong reputation in construction, projects, dispute resolution and debt finance. It also strengthens the firm's position as a key regional player, and will allow it to compete with US and English firms for the top deals (see Global 50 Portrait).

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