Driving business success
Issue 6 / Volume 15 / June 2019

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**Business of veganism**
Drivers behind the plant-based foods boom

**China tax**
Key highlights from the Institute's China tax conference

**Success**
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# Keeping the financial crown

Hong Kong's Secretary for Financial Services and the Treasury James Lau on what needs to be done to maintain the sector's competitiveness

CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

ISSN 1815-3380
9 771815 338008
HK$70.00

**"It's an exciting time for Margaret to be joining the Institute and I look forward to working with her promoting the profession, which is key task of the leadership."**

Dear members,

I am delighted to announce that the Council has appointed a new Chief Executive and Registrar of the Institute. Margaret Chan, an Institute member, will be joining on 11 July. This fulfils one of the key tasks the Council had set itself for the year and enables the Institute to further its preparations for the future and Accounting Plus.

Margaret has over 30 years of work experience in accounting, finance and corporate development – all will be useful in helping the transformation of the Institute. I am personally very pleased that we have been able to attract someone with her calibre and track record to lead the Institute through the opportunities ahead.

It's an exciting time for Margaret to be joining the Institute and I look forward to working with her promoting the profession, which is key task of the leadership.

On 9 June, the TVB programme *Finance Magazine* featured interviews with me, Acting Registrar Jonathan Ng, and two young members in a report on the accounting profession. We spoke about the development of the profession and the prospects brought by the Accounting Plus era. The report also featured how the new Qualification Programme (QP), which will begin rolling out later this year, will prepare future accountants for career success. I am pleased to say we've had good feedback on the feature.

This year we're celebrating the 20th anniversary of the QP with a special logo design competition. Take part and design an anniversary logo for the programme. More details are available on the Institute's website.

I enjoyed attending the Five-Points Invitational Sports Competition with Vice-President Nelson Lam. Featuring our members and representatives from the Audit Commission, Companies Registry, Inland Revenue Department and The Treasury. We cheered on our CPAs in badminton and table tennis. I am pleased to say that we won both of the competitions. It's always good to see our accountants demonstrate their range of "Pluses" in different situations.

Nelson and I also cheered our paddlers on at the Recreation and Sports Club for Hong Kong Professional Bodies Dragon Boat Competition, held on 23 June. It is nice to meet with representatives from the other bodies and we had a great time by the water watching the dedicated paddlers in action.

As a final note on sports success, I represented the Institute at the Chamber of Commerce Cup award ceremony, where six of our teams collected awards for their success in the Hong Kong Marathon. The teams won the top spot and second place in all three categories (10 kilometre, half marathon and full marathon). Our members were clearly Accountants Plus Sports Stars this month.

Turning back to our formal engagements. I would like to express my thanks for Vice-President Johnson Kong, who led a delegation of 30 representatives from small- and medium-sized practices to Huizhou on 20 June. The group learned about the latest economic development there and explored business cooperation opportunities brought by the Greater Bay Area initiative.

We also promoted the profession's links this month through the leadership's trip to Beijing on 20 and 21 June. During our time there we met with senior officials from Mainland authorities, the China Securities Regulatory Commission, the Ministry of Finance and the Chinese Institute of Certified Public Accountants. We discussed various topics with the objective of maintaining the good relationships we have with these authorities and to advocate for the needs of our members operating in the Mainland.

Finally, with the Vice-Presidents I met with another group of important stakeholders for the Institute – non-governmental organizations. The latest NGO Directors' Luncheon which are a series of regular events designed to help NGOs by sharing the best practice on various topics. At the luncheon we discussed corporate governance, with the Consumer Council also giving a presentation on the topic. I shared with the attendees the importance the Institute places on governance, and how we organize the Best Corporate Governance Awards to help promote good corporate governance in Hong Kong-based and listed organizations. The 2019 awards will be open for entry in July – keep an eye on our website for more information.

**Patrick Law**
President

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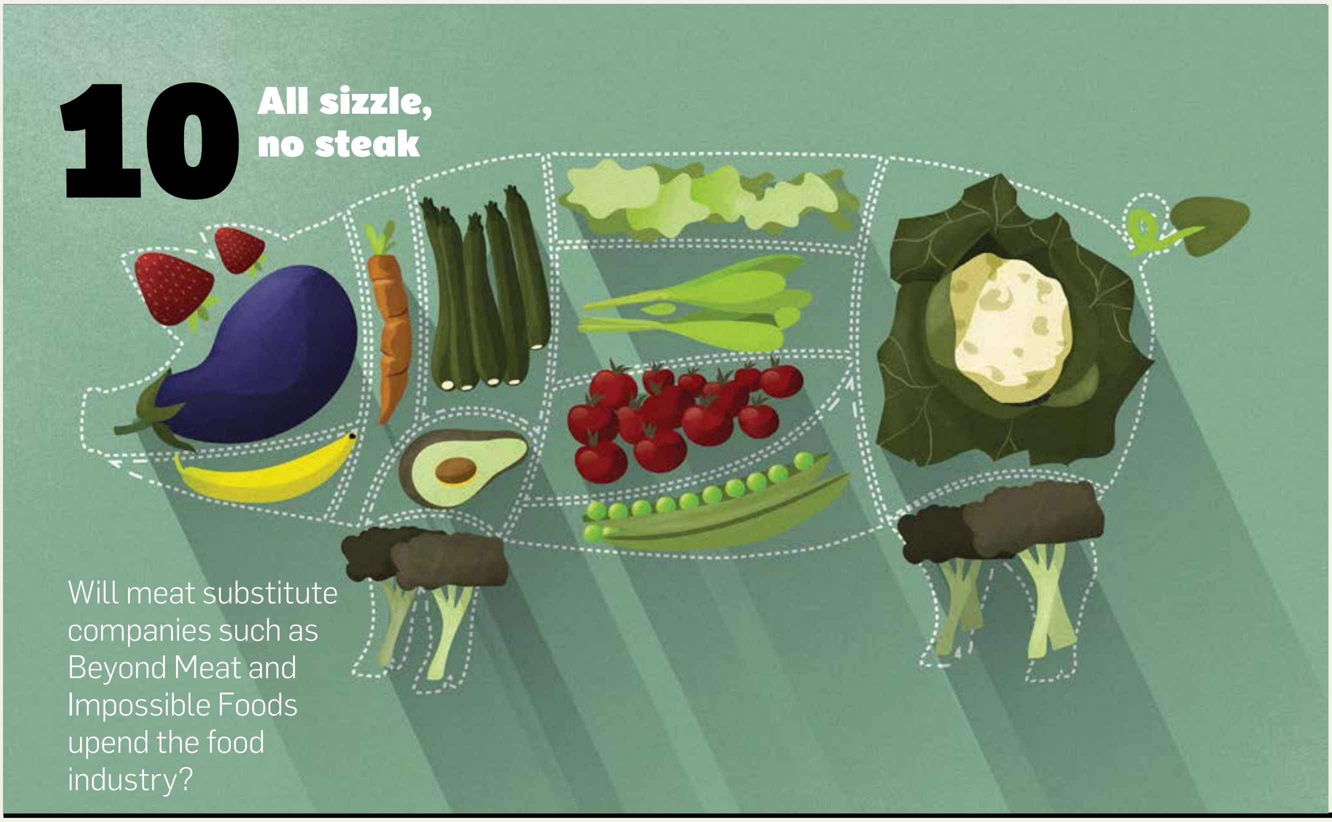



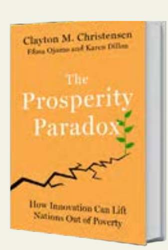


Book review


Driving business success

About our name
**A Plus** stands for excellence, a reference to our top-notch accountant members who are success ingredients in business and in society. It is also the quality that we strive for in this magazine — going an extra mile to reach beyond Grade A.

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香港會計師公會

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June 2019. Print run: 7,270 copies
The digital version is distributed to all 43,928 members, 18,482 students of the Institute and 2,358 business stakeholders every month.

## Institute news

# Institute appoints new Chief Executive and Registrar

On 26 June the Institute announced the appointment of Margaret Chan as the new Chief Executive and Registrar. Margaret Chan will assume her new position on 11 July. Announcing the appointment, President Patrick Law said the Council is delighted to have secured Margaret for this important position.

### Fast track CIA exam offered to Institute members

The Institute, in partnership with the Institute of Internal Auditors (IIA), is offering members a fast-track way to earn the globally recognized Certified Internal Auditor (CIA) designation through an accelerated version of the CIA exam – The CIA Challenge Exam.

The CIA Challenge Exam tests a candidate's knowledge of internal auditing's strategic positioning and operational role, and their understanding of internal audit processes and practices. It is an opportunity for members to show they are credible and trusted internal auditors – and Accountants Plus – and to increase their opportunities for career advancement.

The IIA, with more than 200,000 members in 170 countries, is the worldwide leader of the internal audit profession.

The application period ends 19 July, and the computer-based exam must be sat between 1 and 31 October. Find out more about the CIA Challenge Exam, exam package, application procedure and other details on the Institute's website.

### Enrol in the accounting for performance and decision making module of the FCP

New and aspiring financial controllers are encouraged to enrol in the accounting for performance and decision making module of the Institute's Financial Controllership Programme (FCP).

Recognizing the key role financial controllers play in supporting the strategic decision-making process of their organizations through developing impactful communication skills, the module aims to help participants improve their skills in business finance and their commercial mindset.

The module will be taught by facilitator William Chen, Adjunct Professor at Griffith University and guest speakers. As with all of the programme's other modules, it will feature face-to-face learning, experience sharing and case studies.

Classes will run on Saturdays – 13, 20 and 27 July – and is open to all members with at least five years post-CPA qualification work experience. There is a trial class on 5 July introducing the rational planning model. Find out more about this module and the FCP on the Institute's website.

### Roundtable discussions and forum on quality management for firms and engagements

On 23 and 24 May, the Institute hosted roundtable discussions with the International Auditing and Assurance Standards Board (IAASB), local and global CPA firms, as well as a public forum to discuss the IAASB's recent proposals on quality management for firms and engagements.

At the forum Prof. Arnold Schilder, Chairman of the IAASB, and others explained the key requirements, listened to our stakeholder views and shared their experiences on how to implement the proposals. A recording of the forum is available as an e-seminar on the Institute's website.

### Sports and recreation night

Keep your diary free for the sports and recreation night, which will take place on 9 August to celebrate CPA athletes.

### Council minutes

Minutes from the April Council meeting are now available for members to read. They can be found in the "Members' area" of the Institute's website.

### QP 20th anniversary logo design competition

In celebration of the 20th anniversary of the Qualification Programme, the Institute is holding a competition to design a special anniversary logo. The theme of the celebration is "Accounting and beyond," and the logo must include both "QP" and "20." Prizes are available for winning logos, and entries must be submitted by 26 August. More details are available on the Institute's website.


Prof. Arnold Schilder, Chairman of the IAASB, speaking at the forum on quality management for firms and engagements


CIA

# World's oldest accounting book sold for US$1.2m

The oldest known book on accounting, *Somma di arithmetica, geometria, proporzioni e proporzionalità*, by Italian mathematician Luca Pacioli, was sold for US$1,215,000 at an auction on 12 June at Christie's in New York. The 15th century 615-page book was published in 1494 and is renowned for its first-ever description of a double-entry bookkeeping system. The book also discusses mathematical principles such as probability theory and computing, which are important features of modern finance. According to Christie's, the book is one of only three complete copies that have been recorded at auction in more than 50 years. Pacioli, who lived from around 1445 to 1517, was a friend of Leonardo da Vinci, and taught him mathematics.

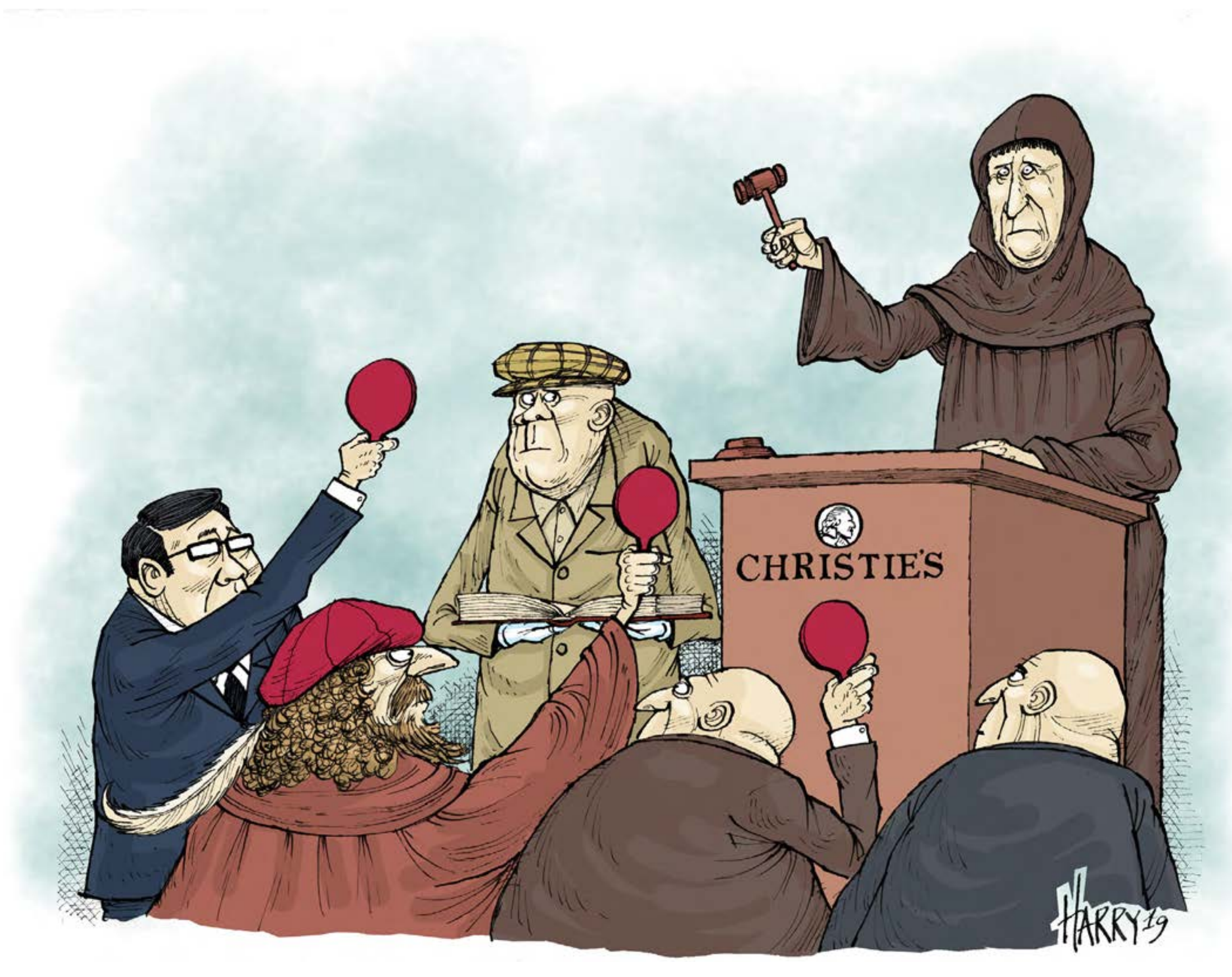



Illustration by Harry Harrison

### IAASB appoints new chair

The International Auditing and Assurance Standards Board (IAASB) appointed Thomas Seidenstein to be its new chair. Seidenstein will serve a three year term, effective 1 July, and replace Arnold Schilder, who has led the IAASB for a decade. Seidenstein is currently Senior Vice President for Strategy, Innovation and Capital Management at mortgage loan company Fannie Mae, and a former chief operating officer at the International Financial Reporting Standards Foundation.

### PwC debuts crypto audit software


PwC in London launched a new software tool to provide audit and assurance services to its growing number of clients holding cryptocurrencies. It will join "Halo," its existing suite of auditing tools, and support eight cryptocurrencies. The firm said the tool will offer a breakdown of its clients' cryptocurrency treasury, and will also provide information on blockchain transactions and balances. "It is important as companies continue to digitize we, as auditors, keep up with technology changes in the market, continue to develop audit tools that meet the needs of emerging technologies and serve the changing and developing demands of our stakeholders," says James Chalmers, Global Assurance Leader at PwC.

### ICAEW launches climate change initiative

The Institute of Chartered Accountants in England and Wales (ICAEW) has launched Chapter Zero, an initiative aimed at developing board executives' knowledge and understanding of climate change impacts for companies, in order to ensure informed decision-making on climate risk in boardrooms. The announcement, made on 24 June, launched as part of the World Economic Forum's Climate Governance Initiative. Chapter Zero will hold briefings, conferences, workshops and roundtables on climate change as part of its work with directors. "Chapter Zero will help ensure that the climate emergency is front of mind when boards make their decisions and that it is not just left as an agenda item," said Chief Executive of ICAEW Michael Izza.


### Deutsche Bank investigated over money laundering claims

Deutsche Bank in Frankfurt is being probed by the United States Federal Bureau of Investigation on whether it had fully complied with laws prohibiting money laundering. The inquiry is related to suspicious financial transactions linked to companies controlled by U.S. President Donald Trump and his son-in-law advisor Jared Kushner. The transactions took place from 2016 and 2017 and were discovered by bank employees, though none informed their superiors about the issue. The bank also did not report them to government authorities. Deutsche Bank has long been under scrutiny for its lax lending standards, as well as its willingness to do business with Trump when most other banks refused to work with him because of his financial troubles. Both Donald Trump and Jared Kushner's real estate company Kushner Companies have denied the allegations so far.

## A world of numbers

**48%**

The percentage of finance professionals in Asia Pacific who believe their jobs will change substantially over the next decade as a result of artificial intelligence and other technologies, according to a poll by CFA Institute.

**3rd**

The IPO ranking of Hong Kong's stock market for the first half of this year, according to Deloitte China's National Public Offering Group. It notes that factors such as political uncertainty and the United States-China trade war have caused macroeconomic turbulence. In first place is the New York Stock Exchange, followed by the Nasdaq in second, and the Shanghai Stock Exchange in fourth.

**1 in 4**

The individuals working in finance or insurance who cite gender pay gap as the biggest issue at their workplace, according to a survey of 1,600 people across the United Kingdom and the United States, by compensation management provider Beqom. Of those surveyed, 15 percent further deemed that their employer was not taking any steps to address this gap.




Shakira

## ❶ Thomson Reuters to acquire Confirmation

Thomson Reuters signed a deal on 21 June to acquire Confirmation, a leading provider of secure audit confirmation services. The acquisition will strengthen the company's offerings to its core tax, accounting and audit customers, according to Thomson Reuters' Chief Executive Officer Jim Smith. He added: "We will continue to invest in solutions that help our customers automate tasks in their daily workflow. The Confirmation acquisition fits that objective." Financial terms of the agreement have not been disclosed, and the deal is still subject to regulatory approvals and customary closing conditions. Brian Fox, President and Founder of Confirmation, will join Thomson Reuters in an executive role once the deal is complete.

## ❸ Fiverr goes public

Online freelance platform Fiverr got off to a strong start with its initial public offering on 13 June. It opened at US$26 per share, higher than their initial pricing at US$18 to US$20, giving the company a valuation of US$650 million. Fiverr is the latest "gig-economy" company to go public, which connects freelancers with clients with jobs starting from US$5. Its listing success follows the shortcomings of IPOs for similar gig-economy companies such as Uber and Lyft. Shares of Uber fell more than 6 percent below its IPO pricing, while shares of Lyft dropped nearly 19 percent that same week. "We are on the path to profitability. That's the balance we're trying to keep – focusing on growth while building a business that would be profitable in the long term," said Fiverr's Founder and Chief Executive Officer Micha Kaufman.

## ❷ London-Shanghai stock connect launches

The long-awaited London-Shanghai Stock Connect went live on 26 June, allowing companies listed in the United Kingdom and Mainland China to raise capital on each other's stock market. Under the new link, U.K.-listed companies are the first foreign companies able to list in the Mainland. The move is seen as a major step for Beijing in opening up its capital markets. One of China's largest brokerages, Huatai Securities, debuted on the London Stock Exchange, becoming the first company to sell through the new link. The scheme differs from the Shanghai-Hong Kong Stock Connect, as the London scheme is limited to trading in depository receipts rather than direct trade in company shares.

## ❹ Shakira in court over tax fraud allegations

Columbian pop singer Shakira appeared in a Spanish court in Barcelona on 6 June to answer to tax fraud charges. Prosecutors allege that the 42-year-old avoided paying €14.5 million in taxes by claiming to live in the Bahamas when she was a resident in Catalonia between 2012 to 2014. They also say she should have paid tax in Spain on her worldwide income for those years, adding that she was resident in Spain for most of the year, and only travelled abroad for short periods. Her defence team argued that until 2014 she earned most of her money in international tours and did not live more than six months a year in Spain – and was therefore not a resident under tax law. Her press team released a statement saying the artist was innocent, that "there is currently no debt," and that she had paid everything claimed by tax authorities. She denies all charges.

by Mason Ching



The Partner at Mason Ching & Associates on the potential pitfalls listing applicants should avoid in preparing for an IPO, and the difficulties shell companies face in going public

# IPOs – a game-changer for shell manufacturers

Initial public offerings (IPOs) have long been the ultimate goal of many successful enterprises. Many entrepreneurs strive to get their companies listed to tap into the capital market of Hong Kong and take a glamourous photo on listing day at the trading hall of the Hong Kong Stock Exchange (HKEX) as a sign of success. However, arranging a listing is an expensive endeavour and involves significant regulatory hurdles.

Listing applications used to be mainly vetted by the HKEX. Now, however, with the power to object any listing application under the Securities and Futures (Stock Market Listing) Rules, the Securities and Futures Commission (SFC) has jumped to the front row to monitor listing applications. It will intervene at an early stage by actively reviewing listing applications, and conduct independent investigations of suspected disclosures of false or misleading information.

The continuous increase in the premium of a listed shell over the last two decades demonstrates that some enterprises are prepared to pay to get listed, without completing an IPO, through a reverse takeover – or a so-called "backdoor listing," for example by merging with or acquiring a public company. This has created a market for issuers to undertake listings in order to sell shell companies for profit.

In recent years, however there has been strong regulatory pushback against backdoor listings and discouragement of the sale and purchase of a listed shell. Apart from stronger rules on reverse takeovers, the regulators have tightened the regulatory regime to discourage the manufacturing of a listed shell through IPOs. IPO practitioners such as sponsors, lawyers and accountants find it particularly stressful to handle two sets of regulators, and often have to address their concerns on some "shell-manufacturing" features. Satisfying one regulator does not necessarily mean that the other also agrees with your answers.

The SFC and the HKEX are particularly concerned about issuers trying to manufacture a listed shell company for sale, instead of achieving the healthy growth of a company through a listing. The latter is for the interests of public investors, whereas the former is for the selfish gain of some people at the expense of others.

## The seven deadly sins

The HKEX has identified seven major concerns, which have been dubbed the "seven deadly sins" for potential listing applicants to think twice before incurring costs to prepare IPOs. They are: (1) small market capitalization upon listing; (2) a company marginally meeting the listing eligibility requirements; (3) fundraising size is disproportionate to relatively high listing expenses; (4) pure trading businesses with high concentration of customers; (5) asset-light businesses where a majority of assets are liquid and/or current assets; (6) in the case of a spin-off, artificial delineation of business between the listed group and the parent; and (7) no or little pre-IPO funding.

Actually, the sins are not "deadly," and an IPO application may survive even if it has one or more of the characteristics. The HKEX will consider a number of factors, such as whether there are better financing options; any urgency in utilizing the use of proceeds; whether a company is cash-rich; and whether the business is in a sunset industry without a good prospect. If a company has a solid business, genuine track record as well as good prospects, the approval of listing is still possible.

However, if the "seven deadly sins" point to "shell-like" activities, it is likely that the listing application will not pass the HKEX and/or the SFC. Yet, there are borderline cases where the company has a long operation history and genuine business assets suggesting against it being a recently manufactured shell. A balanced approach will be adopted to grant a listing if the controlling shareholders can show commitment and voluntarily undertake a longer lock-up period for disposing of shares after listing together with enhanced disclosure in the prospectus.

In some cases, the controlling shareholder of a listing applicant has a history of establishing and disposing of a listed shell in the same industry. In these cases, presumption will be held strongly against such an applicant with "shell-like" features such as a low market capitalization, which allows the listed shell to be sold off easily after listing. However, if there are no other "shell-like" features, the said history alone will not result in rejection, provided that full disclosure of the same is made in the prospectus.

In all, the old practice of manufacturing listed shells through IPOs does not seem to be viable anymore, given the increased uncertainty in getting listing approval, higher costs and fewer buyers due to tight backdoor listing rules. The market and professionals should go back to the basics and focus on viable businesses with a genuine need for IPOs.


# ALL SIZZLE, NO STEAK

Last month, Beyond Meat became the first plant-based meat company to go public, indicating growing consumer interest in the alternative meat market. Meanwhile, fast-food restaurants rush to add meat-free burgers to their menus. Nicky Burridge looks at what's driving growth in the sector

Illustrations by Gianfranco Bonadies

At first glance, the menus at the Chinese restaurants of two well-known Hong Kong hotels appear to offer fairly traditional dishes – sweet and sour pork, Shanghainese pork dumplings and braised pork stuffed with king oyster mushrooms.

But there is a significant difference between these dishes and what diners would normally expect: none of them contain meat. Instead, they are made using Omnipork, one of a growing number of plant-based meat substitutes available in Hong Kong.

Meat substitutes are taking the market by storm as increasingly health-conscious and environmentally-aware consumers look for alternatives to animal protein. The products are also enjoying strong growth in Hong Kong as local consumers adopt the trend.

Beyond Meat led its journey to stock market listing with a burger which aims to replicate the texture, colour and taste of a beef burger. The company made the headlines when its share price more than doubled on the first day of trading on 2 May at the Nasdaq in New York. It is the first vegan "meat" company to go public, signalling growing consumer interest in the alternative meat market.

Shares in the company, headquartered in Los Angeles, surged again in early June when it released its first quarterly earnings report with revenues coming in ahead of expectations, increasing by 215 percent year-on-year to US$40.2 million.

Impossible Foods' own plant-based substitutes for meat are also proving popular with investors. The California-based company closed a series E funding round in May which raised US$300 million. Alongside blue-chip institutional investors, a number of celebrities put money into the company, including music stars Jay-Z, Katy Perry, will.i.am and Zedd, and tennis player Serena Williams.

In Hong Kong, Right Treat, the food tech company behind Omnipork, became the city's first homegrown plant-based meat company when it launched in April 2018. Unlike Beyond Meat and Impossible Foods, which have a strong focus on beef substitutes, Right Treat specifically targets Asian tastes and cooking through providing an alternative to pork.


## Rapid expansion in Asia

The three brands have enjoyed significant growth since they first entered the Hong Kong market. When it launched, Omnipork was served in only a handful of partner restaurants. Today, it is available in 200 retail and food outlets across the city, including the Four Seasons Hotel and Hong Kong Disneyland Hotels, as well as plant-based grocery store chain Green Common.

David Yeung, Founder of Right Treat, says sales of Omnipork through grocery stores received a significant boost following the outbreak of African swine fever, which was first reported in November last year. He adds that there was a tripling in sales growth between March and April this year alone.

Omnipork has expanded across Asia and is now available at around 100 outlets in Singapore and Taiwan, with Thailand expected to hit this level shortly, while it plans to expand into Mainland China later this year.

Impossible Foods has also seen strong growth, going from being available in just four restaurants when it launched in Hong Kong in

April 2018, to 180 different locations in Hong Kong and Macau today, ranging from what it describes as high-end, chef-driven restaurants to burger chains, and even *dai pai dongs*. "We've seen demand from chefs, industry and consumers continue to grow rapidly," Heidi Nam, General Manager at Impossible Foods in Hong Kong, says.

The group entered the Singapore market earlier this year, and is now available in more than 70 different locations. Nam adds that sales have increased more than three-fold in Asia in the past two months alone.

Beyond Meat has been available in the city since 2015, and is currently available in more than 100 outlets ranging from HKTVmall to the Ritz-Carlton to The Butchers Club. Green Common reports that sales through its stores tripled in 2018 compared with the previous year.

## A shift to conscious consumption

The strong growth in sales of plant-based meat products is not thought to be only due to consumption by vegetarians. In fact, there are only an estimated 223,700 vegetarians in Hong Kong, according to market research provider Euromonitor International. The trend is being driven by a shift to more conscious consumption, particularly among millennial consumers.

"Younger consumers are increasingly conscious and driven by 'doing the right thing.' Humane and responsible values are key to them, which is spreading across age groups and the world," says Alison Angus, Head of Lifestyles Research at Euromonitor International, says. "We have seen a rapid rise in veganism and flexitarians, where consumers choose to be vegan at times, but are not completely aligned to veganism."

She adds that globally, one in five people say they are trying to limit their meat intake. PwC illustrated this trend when staff at its offices in the United Kingdom took part in the Veganuary Workplace Challenge, which involved eating a vegan diet throughout January.

Nam at Impossible Foods says: "The awareness of climate change and animal welfare is growing. People are looking for a lifestyle associated with good health and environmental sustainability."

She points out that animal agriculture occupies nearly half of the world's land, making it one of the greatest threats to wildlife and biodiversity. "Raising livestock for food is responsible for 15 percent of global greenhouse gas emissions and consumes 25 percent of the world's fresh water."

By contrast, plant-based meat uses a small fraction of the land, water and energy that is required for meat from animals, she says. "Impossible meat uses 87 percent less water, 89 percent less greenhouse gas emissions, and 96 percent less land than conventional ground beef from cows."

Yeung of Right Treat puts it more strongly: "The reality is that the animal protein-oriented food supply chain is unsustainable and has been stretched way beyond its breaking point for a long time. The planet and the outdated food system simply cannot keep up with insatiable human population growth and demand."

## Getting in on the act

With these consumer trends appearing to be firmly entrenched, the meat-free segment looks set to enjoy significant growth going forward.

Tom Rees, Industry Manager – Food and Nutrition at Euromonitor International, points out that major food companies such as McDonald's are looking into meat alternatives and many companies are investing in their own lab-grown meats, while new start-ups are also entering the market.

He adds that in the United States, Tyson Foods, one of the world's largest producers of chicken, beef and pork, recently pulled out of its investment in Beyond Meat because it intends to develop its own alternatives. "The costs of producing lab-grown meat have been limiting but this is changing as more companies enter the market – already lab-grown meat

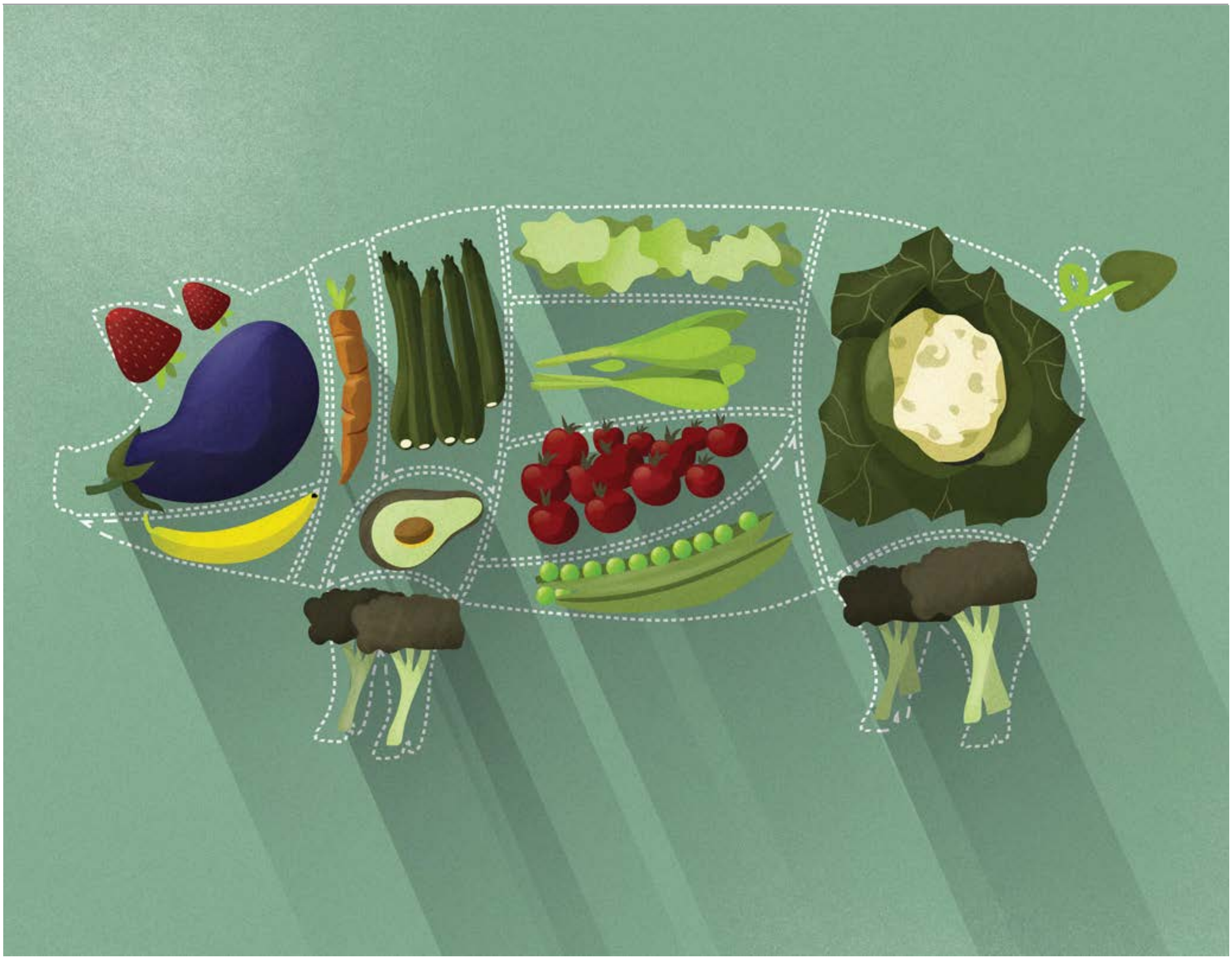
**"The planet and the outdated food system simply cannot keep up with insatiable human population growth and demand."**


is becoming more affordable and accessible to business and consumers."

But he adds that there is still some way to go before prices become comparable, and there are also questions over whether consumers will be prepared to eat lab-grown meat.

In Hong Kong, the market is small but growing fast. Sales of meat substitutes totalled US$20.1 million in 2018, up from US$18.1 million in 2017 – an 11 percent increase, according to Euromonitor International. With Euromonitor International figures showing sales of processed meat in Hong Kong stood at US$177.4 million last year, there is considerable room for growth if meat substitutes continue to take a share of this market.

Hong Kong was the first market outside of the U.S. that Impossible Foods expanded into. Nam explains that it deliberately chose to expand into Asia because the



region is where meat consumption is growing at the fastest rate, and already accounts for 44 percent of the world's demand for meat. "The greatest growth in demand in animal products will come from the Asian market, with a growth rate of 70 percent over the next couple of decades," she says. "Hong Kong, as well as being one of the world's highest meat consuming cities per capita, also has some of the world's most discerning foodies and trend-setting chefs."

Impossible Foods is focused on further scaling its Asia business, as well as expanding its range to include pork, chicken, fish and dairy, and moving into the retail market. "We have announced that we will be entering retail in the U.S. in 2019, and our goal is to be mainstream, mass-market and available anywhere you can find meat from animals," Nam says.

Beyond Meat also has plans to expand in Asia. Although the company has not published targets, responding to an analyst's question at its quarterly earnings conference, Chief Financial Officer Mark Nelson said: "Asia has a desperate need for this. So, I'm going to be very aggressive in going into those markets, and our team will be as well."

## An M&A driver

Ruairí Ó Dochartaigh, Food and Beverage Merger and Acquisition Director at Deloitte U.K., thinks the trend towards meat-substitutes represents both an opportunity and a threat for companies in the meat industry. "Established food and beverage companies, as well as newer companies, are well aware of the increasing trend, with the topic of meat-alternatives increasingly featuring on the board agenda of our clients in the sector, as it is disrupting many traditional products and categories."

He warns that companies that ignore the trend, risk losing market share to those who are innovating with alternative products, particularly as plant-based food is attracting a higher proportion of shelf space in retailers, and gaining traction with consumers. He adds that the shift towards plant-based food comes at a time when many food categories and products are already facing either static growth or are in decline. By contrast, plant-based food is a rapidly growing area. "This growing trend provides the opportunity for companies of any size to gain market share through this disruptive sub-category, either through organic growth, innovating their own plant-based brands, or through merger and acquisitions targeting high growth products," he says.

Deloitte reports seeing what it describes as "sizeable and increasing" M&A activity in recent years in the plant-based sector, driven in part by established food companies and investors looking to gain access to the fast-growing market. For example, Unilever acquired The Vegetarian Butcher in December 2018, while Nestle acquired plant-based food producer Terrafertil in September last year.

There is also consolidation among plant-based companies themselves as they look to achieve economies of scale or expand into new geographies, while start-ups in the sector are looking for investment to accelerate their growth.

O'Dochartaigh says: "Deloitte is working with a large number of clients in connection with developing and executing their M&A strategy, including target identification, market mapping and valuation, as well as the full suite of usual deal support activities, with respect to plant-based alternative products."

Deloitte points out that the trend means traditional food companies need to decide whether they should allocate investment to their core products or branch out into the plant-based market, and if they opt for the latter, whether they should grow organically through new product development or inorganically through M&A activity. They also need to consider whether they should target established markets, or move into developing ones, which may offer greater growth potential. Another consideration is whether the company's branding has the credibility to move into the plant-based sector.

KPMG also expects consumers' focus on healthier eating and sustainable consumption to be a driver of M&A activity in the coming year, as food manufacturers invest in vegan and sustainable products, and beverage companies acquire plant-based drinks companies.

The impact of the trend towards conscious consumption is not limited to the meat industry and is something CPAs should be increasingly aware of as they advise their clients in other food sectors and industries too.

**"This growing trend provides the opportunity for companies of any size to gain market share through this disruptive sub-category."**

A study by market research company Nielsen found that 73 percent of consumers globally said they would definitely or probably change their consumption habits to reduce their impact on the environment, while 81 percent said it was extremely or very important that companies implemented programmes to improve the environment. Three out of 10 consumers were also prepared to pay a premium for products that delivered on social responsibility claims.

The group named 2018 as the year of the sustainable consumer, and it expects this trend to continue into the next decade. It points out that with consumers continuing to choose sustainable products over conventional options, sustainability represents a consistent growth opportunity for manufacturers. "Consumer sentiment is shifting towards 'healthy for me and healthy for the world' and this is influencing sales of fast-moving consumer goods products across multiple categories," says Anita Wong, Vice President, Consumer Insight, Nielsen Hong Kong. "Companies need to evaluate their product portfolios and then understand the impact of ingredients and the level of scrutiny that consumers apply to the products they purchase."

Angus at Euromonitor International agrees that the trend has implications for a wide range of sectors, as consumers opt for more natural products in terms of everything from clothes, to furniture to beauty products and anything that has not been tested on animals.

"For business, this means a complete review of the products and services they offer."

Wong points out that consumers now not only expect ingredients to be animal-friendly, but they also want to know where they derived from, and how and where products were manufactured, as human welfare is also now a key consideration. "This trend calls for absolute transparency of the full supply chain – honest and real insights. Consumers do not just take the suppliers word for it, proving your story is an absolute must for business today," she says.

Yeung at Right Treat expects these global trends to be replicated in Asia: "From fashion to wellness to overall lifestyle, Asian consumers are strongly influenced by Western aspirational brands and trends."

He adds that investors and entrepreneurs, along with certain governments, are waking up to the urgency of the climate and food crisis, and the opportunities that come with it. "The awareness and activity level in the region has noticeably ramped up over the past six months. As more capital and resources come in, it will certainly lead to exciting breakthroughs and innovations."

Consumers are showing their preference for green, ethically-produced products that reflect their own environmentally-aware lifestyles. The rise of the conscious customer will continue as consumers base their buying decisions on many factors beyond price, according to KPMG's consumer and retail M&A trends 2019 report, *The race for game-changing transformation and strategic growth.*

# KEEPING HONG KONG ON TOP

From banking and securities to insurance and wealth management, finance is one of the city's core strengths. Hong Kong's Secretary for Financial Services and the Treasury James Lau explains to *A Plus* the government's key policies in a sector that accounts for nearly a fifth of the economy and employs more than a quarter of a million people

Photography by Calvin Sit

Although Hong Kong has long had an outsized financial services sector – accounting for almost 19 percent of gross domestic product in 2017 with just 6.8 percent of the workforce – James Lau believes the city will have its work cut out keeping up with technological changes.

"For Hong Kong, financial services is really the bread and butter, supporting the running of the economy," says Lau, who was appointed Secretary for Financial Services and the Treasury on 1 July 2017. "We have always had banks and insurance and securities, and these are all very established, but then we also have the challenge of Hong Kong leading in the transition into the new economy – financial technology (fintech) in particular."

Given Hong Kong's laissez faire capitalism, Lau sees the government as having a coordinating role, balancing the needs of the market with the public good. Those leading the transition, he adds, are the market stakeholders – including accountants. "Accountants have a crucial role, and the Hong Kong Institute of CPAs is a very important constituency," he says.

The Institute, he says, provides input on a range of government policies, from the budget to the annual policy address. "I think there was a very good measure of understanding and cooperation between us. So they are a natural kind of a counterpart – an interlocutor – for us."

Lau says that role will become even more important as Hong Kong increases its interaction in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), comprising nine municipalities in Guangdong with China's two special administrative regions over 56,000 square kilometres and about 70 million people.

"If you look at the GBA, Chinese companies want to be aligned with international standards so the Institute and their members are very crucial," he says. Lau adds that he is delighted to see a memorandum of understanding reached over the status of working papers by the Financial Reporting Council with the Ministry of Finance.

In addition, he expects a greater impact in the GBA from environmental, social and governance (ESG) reporting, as China continues to emphasize sustainability and ethical impact of commercial entities.

"Sustainable development is now part of the 13th Five-Year Plan and is implemented vigorously in the annual work plan of the government," he says. "They can do a lot in ESG because China is becoming very, for its own interest and for the interests of humanity, insistent that sustainable development will be actually given effect and not just be a slogan."

He also believes the Institute, which holds its Best Corporate Governance Awards every year, and its members play a crucial role in promoting better corporate governance in Hong Kong. "Good governance is pivotal in helping a business to strive. From establishing a proper financial reporting mechanism to setting up a sound internal control system in a company, accounting professionals provide a valuable service," he says. "We also rely on auditors to promote good corporate governance of companies by

James Lau has worked for the Hong Kong government since 1979. He was appointed Secretary for Financial Services and the Treasury in 2017.

**"Sustainable development is now part of the 13th Five-Year Plan and is implemented vigorously in the annual work plan of the government."**

providing an independent view on the truthfulness and fairness of financial statements. This is important for shareholders and other stakeholders to get an informed view on a company's operation, contributing to the robustness and competitiveness of our financial services industry."

## Question of balance

Sustainability is increasingly at the fore at the Financial Services and the Treasury Bureau. "Over the past two years we have been working with the Hong Kong Quality Assurance Agency in promoting the green finance certification programme. Just last year in Hong Kong we saw US$11 billion worth of green bond issuance, nearly four times that in 2017."

The government joined the green bond bandwagon this year, with a US$1 billion issue just in May. "We have a green bond programme with a ceiling of HK$100 billion. The Hong Kong Monetary Authority (HKMA) did roadshows both in America and in Europe so it can be issued worldwide."

Lau sees such developments as a broadening of the financial product range available in Hong Kong, pointing to the establishment of weighted voting rights in April last year – a departure from Hong Kong's long-standing 'one share, one vote' – and modernizing the listed companies through developing fintech, start-ups in artificial intelligence and robotics, and other new economy entities.

"On the securities side we have had 40 new economy companies, including two companies with weighted voting rights structure and nine biotech companies, together accounting for 53 percent of our initial public offerings in the last 12 months," says Lau.

He says the regulatory obligations of the government must be balanced with growing the sector. "It is not that much of a conflict although it's often perceived as so," he says. The Securities and Futures Commission (SFC) is often given an unfair label as a very aggressive regulator."

Lau believes in upholding the SFC's six statutory objectives: to promote a fair and transparent securities and futures industry; help the public understand the industry; provide investor protection; minimize misconduct; reduce systemic risks; and maintain financial stability.

Since October 2018, the SFC has been chaired by Tim Lui, who was Institute president in 1997. A PwC veteran, Lui retired as the firm's senior advisor to take on his new role. "He brings a lot to the role," says Lau. "One is his professional experience as an accountant and the second is his public-sector experience, whether in education or whether it's in taxation or levy management or strategic development."

Lau says he has a good working relationship with Lui and his predecessor Carlson Tong, another Institute member and former Council vice-president. "I found they were both very attuned to the need for the market to develop," he says. "They were not just there to put their foot down to show who are the regulators. There's a lot of consultation and there's a lot of dialogues."

## Driving development

Lau says he is proud of recent achievements, such as the virtual banking licences issued in three batches this year. He also cites the ongoing risk assessments carried out by various agencies as a positive sign, such as a review of shell companies "with a view to actually having guidelines to tackle these sort of questions."

The SFC, he adds, has issued several guidelines and warnings on cryptocurrencies and related issues such as "initial coin offerings." "With cryptocurrency and crypto platforms, the SFC is working very closely with the International Organization of Securities Commissions and the G7's Financial Action Task Force

**"We have to take a view from the overall policy perspective, the overall playing field, the overall implication, and not just what it means for the industry."**

because we need to know where these transactions go."

Domestically, Lau adds, one major success is the setting up of the Insurance Authority (IA). "We started with the insurance companies coming under the authority and now the some 90,000 practitioners – agents, back end staff, etc. – also will be coming under the supervisory oversight of the IA. They also have issued a first virtual insurance licence and that is actually the beginning of what we see as more insurtech in Hong Kong and we are working on a regime to introduce special purpose vehicles for insurance-linked securities."

Regulatory authorities, he says, are also conducting more experiments on proof of concept for blockchain applications, including one being tested out on the new eTradeConnect trade financing platform. "They're exploring a short trial with the Monetary Authority of Singapore," says Lau.

He takes pride in Hong Kong having the leading wealth management sector, with US$3.1 trillion in terms of asset under management. "We have done a lot in terms of the taxation regime for asset management. We're looking at a limited partnership regime that is more favourable and more up to date."

Lau understands that the government cannot please all market players. "Because not everything that a regulatee wants would necessarily be given. We have to take a view from the overall policy perspective, the overall playing field, the overall implication, and not just what it means for the industry."

As cross-boundary connections develop, for example, Hong Kong might like to have a very wide scope of products available for investors in the Mainland. "But then there is a need to ensure that the products are properly supervised, with an appropriate transparency and enforcement mechanism."

## Cross-boundary flows

Four decades ago, when Lau first joined the Hong Kong government as a young administrative officer, he was thinking about how to use data to improve efficiencies. Today, he is far from intimidated by today's technology. "I'm a computer science guy by training," he says. "I have a natural kind of, almost innate kind of liking for this sort of work."

The latest milestone, he says, is distributed ledger technology (DLT), often referred to as blockchain. "DLT is a game changer that actually enables a lot to happen because of consistency and integrity. With DLT, we see many things happening which were not possible before and can make possible secure, remote cross-border transactions, which are important for Hong Kong."

And by cross-border, Lau does not mean just Mainland China. While he believes greater integration with the rest of the country is essential, he also says Hong Kong must continue to develop as a global city. "We have a lot to do about integration with China and we are also very mindful of Hong Kong as an international financial centre."

He joined the Hong Kong government as an administrative officer in 1979 and was promoted through the ranks until he joined the HKMA in 1993. In 2004, Lau was seconded to the Hong Kong Mortgage Corporation as chief executive officer until he retired in December 2012. His previous role was as under secretary for Financial Services and the Treasury.

On the cusp of retirement – he is now 69 – Lau sees a future in which China continues to open up to the markets, and its capital account too, but "it needs to do so gradually," he says. Hong Kong will be key to that opening up through the various connections of securities, fund and bond markets. "There might be more connections on the insurance side, on wealth management products, and we have been discussing, for example, exchange-traded funds, with the China Securities Regulatory Commission."

Lau predicts that the GBA will become much more tangible with time. "What is clear in the long-term development plan is actually they want to see more flow of people – workers, teachers, researchers. And clarifying the status of what is a tax resident," he says. "Some details are being worked out but you can see a lot of measures are really to facilitate a flow of people across the boundary."

As the GBA develops, Lau expects to have other priorities. "I think I've done pretty good here and I think there are lots of things one can do afterwards," he says. "I like photography and now I like walking, mostly along Bowen Road because I want to really get exercise, and I'm not a gym person."

The Hong Kong government is the first signatory in Asia to join the Green Bond Pledge, a joint initiative developed and designed by international climate finance and environmental groups, which seeks to limit climate change by 1.5 degrees celsius, as outlined by the goals of the Paris Agreement. The city aims to reduce carbon intensity by up to 70 percent by 2030 – similar to levels found in 2005 – turning the city into a regional hub for green finance.

Lau holds a Bachelor of Mathematics (Computer Science and Statistics) Honours Degree and a Master of Mathematics Degree in Computer Science from the University of Waterloo in Canada.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by Mark Lee



The Research Director of the Asia Pacific Institute for Strategy on how businesses can get the full benefits of artificial intelligence by working with it

# How to achieve a strategic partnership with AI

Artificial intelligence (AI) is no longer just cascading down screens in Hollywood films – it's increasingly a mainstream technology being used by companies across different industries. For example, many companies are investing in and exploring the potential of smart manufacturing, where AI improves the quality and efficiency of production. Many of us interact with AI without even knowing it, for example, when we order fast food online from a customized menu, or scroll through video recommendations on YouTube.

While AI creates new customer needs and generates different business opportunities and jobs, some people are concerned about its impact on their job security. To alleviate their concerns, workers should adjust and upgrade their skills to ensure they can take full advantage of the strategic opportunities of AI, including:

- Eliminating the burden of repeated tasks that slow work down, reducing costs and improving work efficiency.
- Achieving greater accuracy and getting the most out of data, so as to empower professionals such as accountants to work better and make better decisions.
- Finding the relationships and patterns within data that we overlook.

A proper plan for achieving a strategic partnership with AI and implementing the technology would not only help businesses harness AI's potential but also allow managers and staff to rethink their job responsibilities and leadership skills.

## Find the right AI partner

Having the right team could make all the difference. Begin your strategic partnership with AI by researching AI enterprises and creating a short list of potential partners. Screen agencies based on factors such as their track record, product capabilities, team credentials and customer support. Aim for agencies that have been in the AI field longer or have experience with enterprises in your industry. Most importantly, you have to determine how their services will help create solutions for your company.

## Have a plan

Once you have signed with a partner, set realistic goals. It must be made clear what your company wants to achieve with AI and how it will get there – whether it's handling business processes, providing customer service, or managing its IT and security. Set up meetings with your team and AI partners to familiarize employees with this new form of workflow, and talk about new challenges which may arise. Provide your partner with a clear vision of the project, engage employees in the discussions, and communicate whenever it is possible. Even the tiniest change should be discussed – otherwise you run the risk of ending up with a different product.

## Retrain employees

To get the full benefits of AI, professionals have to get comfortable working with new software and machines, which will take a while. According to an Accenture survey on the future workforce, over 60 percent of workers have a positive view of the impact of AI on their work, and two-thirds acknowledge that they must develop their own skills to work with intelligent machines. As a workforce strategy, it is generally more efficient to retain and retrain your employees in the age of AI, rather than engage in large-scale layoffs and rehiring, as existing employees know your products, customers, and have working dynamics that may have taken years to reproduce.

## Stay secure

Working with large amounts of digital files comes with the risk data breaches and hackers. With AI, your files will have to go through processes such as data mining, data extraction, data cleansing and data science. Invest in the latest protection solutions and understand how to use them. You can always consult with your AI partner regarding what tools and technologies to choose. Invest time and money in training your employees along with your AI partners on how to manage the data risks associated with working on your product.

## Understand AI's limitations

AI isn't ready to completely replace humans just yet. "We still remain far from general AI that can wholly take over complex tasks, but we have now entered the realm of AI-augmented work and decision science – what we call 'augmented intelligence,'" Chris Howard, Research Vice President at Gartner, said earlier this year. Though it is able to perform certain tasks quicker without ever needing breaks or sleep, employees must take note of its limitations. The main limitation of AI is that it learns from the data and any inaccuracies in the data will be reflected in the results. Other potential issues include high maintenance costs, overdependence by humans, a lack of emotional intelligence and ethical issues. For example, workers can become too dependent on AI and lose their mental capacities in the long run. Therefore, employees must be reminded to think of AI as a tool to grow their business and strike a balance between the two.

If these steps are followed correctly, an effective and strategic partnership with AI can blossom. Remember, AI has the potential to help raise your company to the next level.

# CHINA TAX, CHANGING WAYS

Last month, the Institute's annual China tax conference covered the latest developments in Mainland tax affecting Hong Kong and international businesses. Anthony Chan reports.

Photography by Calvin Sit

A packed ballroom at the InterContinental Hotel proves that taxation is both important and inevitable. The Hong Kong Institute of CPAs held its annual China tax conference on 11 May to provide the much needed answers to questions regarding the recent changes to the tax regimes in the Mainland. William Chan, Convenor of the China Tax Subcommittee kicked the conference off with some background information before speakers covered the latest individual income tax (IIT) (see *New individual income tax policies* sidebar on page 27) and corporate income tax incentives and developments, transfer pricing, and value added tax (VAT) update (see *VAT updates* sidebar on page 28), all of which aims to create a more conducive commercial and working environment in Mainland China, promote economic growth, and attract more talent and capital – particularly to the Greater Bay Area (GBA).

The GBA is a strategic economic initiative which Hong Kong is a part of, and could potentially be one of the most economically dynamic regions in the world. Success requires a corresponding dynamic taxation regime to enhance the region's competitive edge, and Mainland authorities have developed a number of recent national and local initiatives to assist and improve taxation efficiency. The conference speakers noted that those with businesses and investments in the area should carefully consider these new rules and benefits.

## Towards a world-class system

One area authorities have devoted considerable energy to is improving the tax regime. The *Paying Taxes 2019* report by PwC and the World Bank Group, assessing the tax systems of 190 economies, found that Mainland China has improved in the global rankings through reducing tax rates and the time to file taxes, and also the number of payments.

With 142 hours required for filing in 2017, down from 464 hours in 2007, Rebecca Wong, Partner, China Tax at PwC, and a member of the Institute's China Tax Subcommittee, highlighted that this improvement was due to authorities introducing a range of initiatives to legislate the existing tax regulations into tax laws, restructuring the organization of tax authorities and optimizing tax systems.

Enhancing the efficiency and convenience of the corporate tax system has reduced the number of trips and meetings with tax bureaus to clarify issues. Mak Ho Sing, Partner, International Tax, at EY, and a member of the Institute's China Tax Subcommittee, said this has had a welcomed impact. "The number of tax filings and the time required for such filings have decreased, with the hours required dropping very significantly. Furthermore, filing can be submitted online so that companies may no longer need to send personnel to queue up at various tax offices," he said.

"There is the understanding that the tax system is to serve businesses, and there must be continuous improvement, with many initiatives awaiting gradual implementation. One innovation expected to be announced is to let taxpayers obtain certainty for complex issues for big enterprises," explained Wong.

She added that a better system that operates more effectively and efficiently benefits both the payer and collector, and it is emphasized that legitimate tax items should be paid promptly and conveniently, while legitimate refunds are seamlessly returned.

## Freeing trade zones to innovate

Mainland authorities have long

Patrick Cheung, Partner, Global Transfer Pricing Services at KPMG.

empowered free trade zones within the country to innovate and try new policies to promote growth, and in addition to the central government efforts in reducing the overall tax burdens there are initiatives by local governments to make it easier for businesses. During a panel discussion, speakers examined the current business environment and innovation initiatives in the free trade zones of the GBA, including Shenzhen's Qianhai zone, Hengqin free trade zone next to Macau, and Guangzhou Nansha Economic and Technological Development Zone.

Qianhai focuses on industries such as logistics, finance, and IT. "Setting up a new company was hard. Now, a platform has been created for foreign investors in Qianhai to proceed with all the steps within two days, instead of the around 20 days needed before," explained Mak. "There is also a 'virtual reality' tax office allowing 90 percent of the procedures to be done remotely."

There are a number of subsidies granted to new businesses that are in Qianhai's preferred sectors. "For example, a one-time subsidy could be a maximum of HK$30 million, or you may be given allowance depending on the contribution to Qianhai's objectives, or the rental subsidy offered may cover up to half of the rent. The point is that Hong Kong enterprises can enjoy

Sarah Chin, Tax and Business Advisory Services Leader – Southern Region, and the National Leader for Indirect Tax and Customs, at Deloitte China.

Leo Yang, Tax Partner at Deloitte China.

many benefits although the subsidy amount may not exactly be the same," he said.

He added that similar to the Hengqin free trade zone in Zhuhai, there is a favourable corporate income tax rate of 15 percent in Qianhai for specific industries: modern logistics, informational and technological services. "By registering in Qianhai and meeting the criteria, corporations can immediately enjoy the preferential tax rate without approval."

Looking at tax settlement technology taking place in Hengqin, Wong of PwC highlighted V-Tax, the country's first remote taxation service terminals installed in computers to handle tax affairs. "It is similar to going to a bank for VIP service. You get access to the taxation bureau through the internet, and the staff will assist you. The local Hengqin taxation bureau cooperates with banks in Hong Kong and Macau. You can go to the bank and it is free to open business account. This is favourable to Hong Kong businesses, especially SMEs."

Hengqin also aims to attract Macau-based companies. Wong commented that "Macau companies which wish to set up operations in Hengqin for internal services don't need to set up a separate legal entity in Hengqin. They can use the Macau company to rent office spaces for the internal service operations and they will only be required to pay tax in Macau but not Hengqin in relation to the internal services."

**"There is also a 'virtual reality' tax office allowing 90 percent of the procedures to be done remotely."**

In the Guangzhou Nansha Economic and Technological Development Zone, Leo Yang, Tax Partner at Deloitte China, advised that though there is no specific policy dealing with investments in the free trade zone, the government welcomes trial projects to be conducted as long as the legal framework permits. Yang mentioned that "while there is a negative investment list in Nansha where investment falling in this list would not be allowed in the zone, the government issued two clear guidance notes on the negative investment list in relation to financial and service sectors. The guidance notes help enhance work efficiency to those who wish to conduct business activities in these sectors."

This has attracted companies working in logistics, finance, international trade and commerce, and high-end manufacturing, even though there are no tax incentives or IIT subsidy in the past. "However, even without local incentives about tax we still can see that there are many manufacturing companies, high and new tech corporations, and research and development companies. According to the taxation policy in China, there are already incentives for these types of industries, like high and new tech, software, and advanced services, which companies should utilize," Yang said.

## Easing the individual tax burden

There was a general consensus in favour of the newly-introduced IIT policies and speakers noted how these changes would make it more attractive for Hong Kong people to work in the nine Mainland cities in the GBA. However, speakers noted that authorities have still not issued clarifications on who would qualify as "high end talents or talents in short supply" needed in the GBA cities.

While it is expected that the policies should be similar to what has been implemented in Qianhai and Hengqin, the fact that the nine cities are focusing on different industries means that a unified policy could be difficult.

Daniel Hui, Tax Partner of KPMG advised that "if there are different policies on high end talents or talents in short supply in the nine Mainland GBA cities, will people be able to register and file IIT in one city where they can qualify for a tax rebate but work instead in another city where they do not quality for tax rebates?"

For Hong Kong residents who work in the Mainland but don't reside there, recent changes

Daniel Hui, Tax Partner at KPMG.

William Chan, Partner at Grant Thornton Tax Services.

introduced concerning the 24-hour day counting rule brings good news. However, the rule only applies to the day counting basis for tax residency for IIT purposes. Hui advised that "many people are getting confused and assumed that the 24-hour day counting rule also applies to day counting for permanent establishment (PE) and the IIT calculation basis for frequent travellers. In fact, there is no change in the day counting basis in these two areas."

Therefore, while the individual may not meet the rules for tax residency, their physical presence may create a PE for the entity or project they represent, potentially with corporate income tax consequences. Employers will need to check whether they are liable for corporate income tax as a consequence.

## Prepare for AI-directed investigations

Companies may also more face investigations into their anti-base erosion and profit shifting (BEPS) compliance, with authorities investing in artificial intelligence (AI)-directed investigations according to Patrick Cheung, Partner, Global Transfer Pricing Services at KPMG. He commented that BEPS entails the integration of management, auditing and service into a single process, where the large-scale collection of tax-related data would enable the assessment and classification of risks. It places companies into high, medium and low categories, and subsequently allows the implementation of appropriate action for each risk category, for example auditing for high-risk cases. The risk profile of companies would largely be derived from their historical tax information and industry. "AI-driven metadata will be used by authorities for case selection, analysis and auditing," he added.

There are substantial challenges that companies will face regarding transfer pricing. Increased

**New individual income tax policies**

The conference opened with introductory remarks from Liang Bin, representative from the Guangdong Provincial Tax Services, State Taxation Administration, who succinctly discussed Public Notice 34 (Public Notice Regarding the Criteria for Determining the Days of Non-China-Domiciled Individuals Residing in China) and Public Notice 31 (Public Notice Regarding Preferential IIT Treatment for the GBA), issued in March.

Public Notice 34 outlines new criteria for determining the number of days residing in the Mainland and the Six-Year Tax Residency Rule, both determine individuals' tax residency status and thus their tax liability for income earned outside the Mainland.

This notice stipulates that an individual is considered a tax resident if he or she stays in the Mainland for 183 days in a year; less than that they are not a tax resident.

"There is amendment to how 'one day' is counted – any individual must be physically in the Mainland for a full 24 hours to be counted as one day for tax resident determination purposes, whereas before, the moment the individual crosses the border and enters the Mainland is counted as one day regardless of how long he or she stays there within that day," Liang explained.

On the Six-Year Tax Residency Rule, in any given year if the individual leaves the Mainland for 30 or more consecutive days, then the calculation of the 183 days required for a qualified year of tax residency resets. And as long as the individual is present in the Mainland for not more than six consecutive years, their income sourced from outside of the Mainland will not be subject to Mainland IIT. Income derived from a Mainland entity requires payment of taxes irrespective of the tax residency status of the taxpayer.

Regarding Caishui No. 31, it clarifies IIT rebate policy in nine cities of the GBA, with the key point being that the Guangdong Provincial and Shenzhen Municipal authorities will provide IIT rebates to overseas to "high-end talents and talents in short supply" based on the difference in individual income tax burden between the Mainland and Hong Kong.

"The current amendments create a significantly less stringent tax environment," said Liang.

Subsequent to the conferences, the Guangdong government confirmed that IIT rebates would be available across all GBA cities for needed talent.

transparency and sharing of tax information between government bodies and tax authorities would lead to more stringent assessment and management, and a demand for higher standards of transfer pricing documentation. Moreover, there is the possibility of increased tax liability for companies that are audited.

In facing such challenges, caution must be exercised on all relevant aspects of transfer pricing and management of the value chain, ensuring the method of transfer and pricing is appropriate and satisfies corporate objectives, especially for companies undergoing transformation and upgrade, and that have intangible assets. Attention needs to be placed on how specific transactions are conducted between corporate entities, with methods and analyses justified. Cheung stressed that documentation must now be more comprehensive, with more thought given to risk mitigation as well as the position in the value chain that the China-based entities are located, and ultimately how tax authorities will view this.

## Implementation issues remain

A long-standing issue is the varied interpretations of tax regulations by provincial and local tax authorities across the Mainland. However, it is being addressed as rules become laws. And tax authorities not only share information but also merge operationally, so taxpayers must ensure the information they submit is accurate and consistent.

"While taxpayers can enjoy better efficiency and benefits, they need to properly plan their tax matters, documentation and filing, as their tax responsibility has not lessened," Wong of PwC commented.

The benefits, reductions and refunds are all geared towards building a more conducive commercial environment for companies and individuals in the Mainland. With an eye on the GBA, the goal is to make the whole region more globally-competitive. Taxation is inevitably complicated as there are three tax jurisdictions in the GBA, as well as the free trade zones which have their own initiatives.

Yang at Deloitte highlighted that more flexible arrangements to differentiate the taxation systems across the GBA can help its success. "More communication to facilitate breakthroughs in policy; establishment of policies to assist Hong Kong and Macau enterprises to head to the Mainland; and taxation reform measures to account for differences in the system. Together these will help the GBA achieve success from a tax perspective," he said.

And for foreign companies, the strict foreign exchange controls in Mainland China create hurdles. There are a few policies that would ease cross-border fund flow. The speakers came across success cases for implementing cross-border cash pooling arrangements, but the ease of making outbound remittance from China on outbound direct investments can be variable. "Regarding capital flow out of Mainland China, is outward direct investment OK for that? In these three places, there are some limitations and non-written requirements," said Wong. "I think it may be better to have another seminar talking about foreign exchange."

Nonetheless, the actions taken so far are significant and constructive, and give business owners, investors, employees and other stakeholder confidence that the commercial environment can only improve further. Compliance costs in preparing, filing and paying taxes are never light even in the simplest of jurisdictions and business environments, so bringing costs and uncertainties down for all parties involved in a diversified region that is the GBA is remarkable.

It is also clear that authorities have shifted from an enforcement mindset to one of servicing taxpayers. This is indeed great news and reaffirms authorities are responsive and committed in reforming the system towards greater transparency, trust and efficiency that can only be positive for all stakeholders.

**VAT updates**

There is also good news on the VAT front. Sarah Chin, Tax and Business Advisory Services Leader – Southern Region, and the National Leader for Indirect Tax and Customs, at Deloitte China, elaborated that: "China has bucked the global trend regarding VAT with its recent reforms by lowering rates, and this is something unusual but very positive."

In addition to the VAT reduction, the reforms from the Bulletin 39 issued in March, also bring an expansion of input VAT credit and excess VAT refund, she said.

Effective from 1 April, the VAT rates for VAT taxable supplies, and import of certain goods for general VAT payers are reduced from 16 percent to 13 percent, and 10 percent to 9 percent respectively.

The VAT burden on businesses is further reduced with the expansion of input VAT credit to include passenger transportation services and immovable assets, and a 10 percent super deduction for taxpayers in the production, lifestyle, telecoms and postal service sectors.

On the excess input VAT refund, a new pilot programme will allow a certain refund taxpayers subject to conditions, such as the compliance record of the taxpaying company. The objective here is to recover a certain amount of trapped VAT by allowing for refunds of excess input VAT.

"These reforms are positive and unprecedented, no other country has dropped two VAT rates in a year. VAT collection represents over 40 percent of total tax revenues in China, so less VAT will be collected," Chin explained.

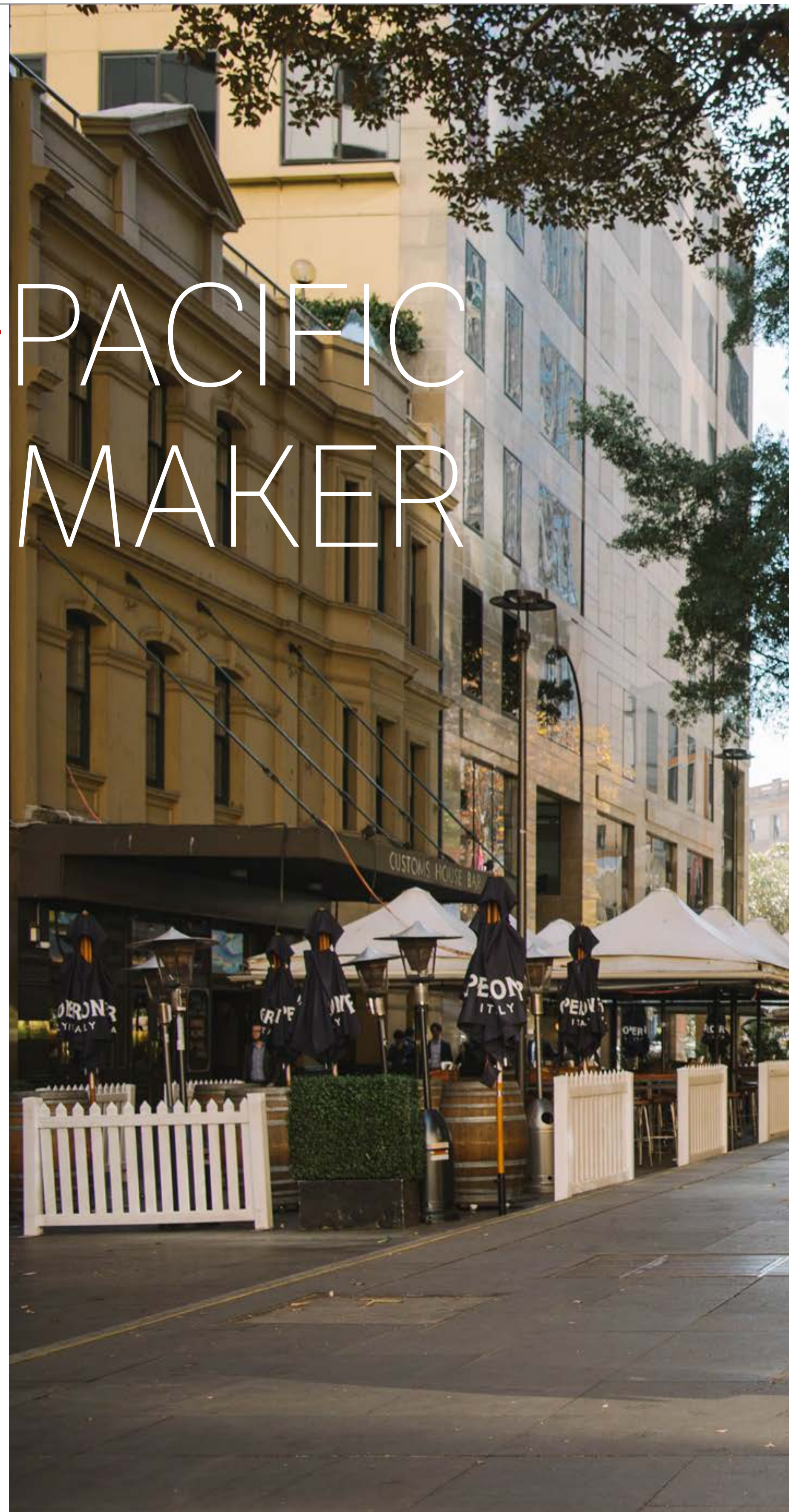
Mak Ho Sing, Partner, International Tax, at EY.

"The number of tax filings and the time required for such filings have decreased, with the hours required dropping very significantly."

Rebecca Wong, Partner, China Tax at PwC.

"While taxpayers can enjoy better efficiency and benefits, they need to properly plan their tax matters, documentation and filing, as their tax responsibility has not lessened."

# ASIA-PACIFIC MATCHMAKER




Luckily for the accounting profession, Anthony Boswell had less than stellar skills as a sportsman. A devotee of cricket, the New Zealand-born Hong Kong Institute of CPAs member had a relatively short playing career, but his love of figures helped to propel him into the top ranks of scorers.

Cricket produces huge amounts of statistics on players, teams, venues – even spectators. Scorers act as the record-keepers of the match, noting balls bowled, runs scored and wickets taken. As a young accountant in Auckland in the 1990s, Boswell progressed through the ranks until he became a scorer for the New Zealand national team while a graduate with New Zealand's government auditor for 18 months, before moving onto to what is now PwC.

Today, Boswell utilizes these data analysis skills at Denning Asia, a boutique Sydney-based investment firm that finds capital sources for mid-sized corporate and real estate transactions across Australia, New Zealand and Southeast Asia. "We are a matchmaker of investors looking for opportunities and domestic borrowers in Australia and New Zealand looking for funding," says Boswell.

The inspiration to co-found Denning with long-time colleague Mathew Morahan, a former RBS banker, came from Hong Kong, where Boswell was working in the aftermath of the collapse of Lehman Brothers that marked the beginning of the global financial crisis.

"My client base in Hong Kong morphed from being banks to alternative credit funds, because the banks' ability to lend in certain sectors of the market was being restricted by regulation," Boswell recalls.

Anthony Boswell experienced a memorable career in Hong Kong, working on the Peregrine Investments collapse and the Lehman Brothers "Minibonds" debacle. Now in Sydney with Denning Asia, he matches Australian and New Zealand businesses with Hong Kong non-bank lenders, as he tells George W. Russell during a deal sourcing trip in Auckland

Photography by Jiwon Kim

## "[The regulators] de-risked the banking environment, but those businesses still require funding and while there might be a higher risk, they're not all going to fail – in fact the vast majority won't."

That meant many businesses were needing to consider other capital sources. "Regulators didn't want banks to fail," he adds, "so they restricted how much capital banks could deploy in certain sectors of the market: property and mid-sized businesses that are often thinly capitalized, and often run or managed by an owner-founder who has not had enough time to work at succession issues."

Boswell and Morahan saw these businesses as clients of the future. "[The regulators] de-risked the banking environment, but those businesses still require funding and while there might be a higher risk, they're not all going to fail – in fact the vast majority won't," Boswell says. "So the opportunities for the alternative lending world has just multiplied."

"Matt had left RBS and we were both talking about how he was seeing many credit opportunities if there was access to alternative funds," Boswell recalls. "My response to him was that there are plenty of funds with available liquidity. I was getting daily calls from my clients in Hong Kong asking me to find them lending opportunities in Australia. So Matt and I agreed to give it a go and so Denning Asia was established. That was 2016 so we've been going three years now."

Boswell and Morahan are co-managing directors at Denning Asia and they hired a third capable Managing Director in 2017: Jennifer Tang, an Australian lawyer recruited from Avenue Capital's Singapore office.

## Career trajectories

Boswell acknowledges he has accounting in his blood. "My family has always had a passion for numbers, my maternal grandfather was a dyed-in-the-wool accountant for the Inland Revenue in New Zealand until his retirement at the age of 60. His wife, my grandmother, strongly suggested about three weeks after retiring from that role that he should rejoin the workforce and so he went back to be an accountant for the Presbyterian church for many years after that. My brother too is an accountant and chief financial officer based in New Zealand."

As a secondary student, Boswell found he had a knack for numbers. "I was dux [top of class] of my school in accounting and I just had a natural bent for it."

With his focus on helping Martin Crowe (the then captain of the New Zealand cricket team) prepare for the 1992 Cricket World Cup, he missed the accounting firm recruitment season. "My first job out of university was with the New Zealand Government Auditor for about 18 months. Some of the cricket players I knew had businesses on the side, so I ended up doing some of their basic accounting as a way of making some money at university."

That put him in contact with Price Waterhouse (now PwC). "They did the big-picture strategic tax work for several of these cricketers and I'd done my final qualification exam with the then New Zealand Institute of Chartered Accountants" – now Chartered Accountants Australia and New Zealand.

In 2018, the fundraising activity of Australia-based fund managers surpassed levels seen in recent years, according to a report by law firm Allens. It adds that assets managed by private equity firms on behalf of their investors have grown to almost US$26 billion as of December 2018, the third-highest figure on record.

Upon graduating, Anthony Boswell worked as an auditor for the New Zealand government for 18 months and then spent 22 years at PwC, where he worked in restructuring and insolvency.

When Price Waterhouse advertised for auditors, Boswell got his start with professional services, "I stayed 22 years," he says. "I started in 1994 and spent two years in the audit group, and by 1996 I was getting a little bit tired of auditing and told one of the senior partners."

He was offered two roles: the management consulting group or the restructuring and insolvency group. "My initial gut feeling was that management consulting was where all the hip and cool people were working and the insolvency group seemed a little tamer!" he says.

However, his love of cricket won over once again. "There were two things that swung my view. Number one there was a former New Zealand cricketer in the restructuring and insolvency group – Richard de Groen – who was a senior manager and so this meant I could continue my passion of working with cricketers and continue to work closely with a sport that I love."

Secondly, Boswell sought the advice of a mentor, Tony Gray, then CFO of Television New Zealand. "He told me I could do management consulting at any time in my career, but I would quickly learn a lot about the reality of business and paying people, managing disgruntled employees and creditors if I worked

Boswell worked in Hong Kong from 1998 to 2004. After which, he returned to Auckland and rejoined PwC.

in the restructuring and insolvency group."

## Asia experience

Boswell's Hong Kong connection began when John Waller, a PwC New Zealand senior partner who went on to be chairman of the Bank of New Zealand, asked if he was interested in going to Hong Kong to help work on the collapse of Peregrine Investments Holdings after a US$260 million bond issue went awry.

"That was January 1998 and I stayed through to April 2004," he says. "I worked on Peregrine for about a year and then Guangdong Enterprises (Holdings) which was going through a massive debt restructuring, and PwC was acting on behalf of the bank creditors analysing the proposal put by Goldman Sachs, who was acting on behalf of the debtor."

Boswell admits New Zealand was a lot quieter in the 1990s – an era before *The Lord of the Rings* made the country famous. Auckland, the country's largest city, had a population of just over one million. "I found Hong Kong unbelievable because of the scale of the whole place, the scale of the buildings and the whole environment and just how many people were out," he says.

"I was a little bit nervous about being a younger Kiwi accountant," he remembers. "But some of the things about being a New Zealander actually played out pretty well. I was really taught to treat the chairman and the cleaner in the same way and so I think I always got on well with people."

Even though the region was in the grip of the Asian financial crisis, Boswell saw optimism in Hong Kong. "Did I think Asia had a future? I did because of the different level of intensity, the scale of creativity, of people wanting to do things, and a go-ahead mentality. Yes, I thought it had an amazing future."

One reason was the rapid growth of China. "I had three big projects in six years: Peregrine, Guangdong and then Greater Beijing First Expressways. That was a massive set-up of toll roads just outside Beijing. It just really opened my mind."

When his mother became ill, he decided to return home. "I just felt from our family perspective that it was the right thing to do," he says. "In 2004, I went back to Auckland and re-joined the firm and made partner at PwC within three years later."

> **"[Hong Kong] has really developed my sense of thinking differently and approaching an issue in an analytical and purposeful way but with respect."**

## Back to Hong Kong

Then came Lehman Brothers. "Two weeks after Lehman went bust, Hong Kong called again. So I returned in 2008 transferring to PwC China and among other projects, was one of the receivers of the Minibonds," says Boswell, referring to the US$1.5 billion of structured notes that became in default when the United States bank collapsed. "So that was a great job for me in a lot of ways [including] personal development because it was incredibly complicated and incredibly detailed."

Boswell's team was more diverse than a normal project. "We were bringing in outside expertise because of the complex issues around the conflicting laws – U.S. law versus English law – and you needed that absolute crème de la crème of experts around derivatives."

He says his biggest learning experience was the complexities of stakeholder management. "We had the issuing banks, led by Bank of China, we had HSBC, which was trustee, we had a lot of work with the Securities and Futures Commission, clearly the Hong Kong Monetary Authority was interested, the media was interested and then there was the 30,000 mums and dads who'd invested in the Minibonds."

Boswell says the exposure to such a varied group of stakeholders has opened his mind. "I think for a lot of people who don't get an opportunity to travel and work in cultures that are quite different to their natural culture that's a really hard thing to learn," he says. "[Hong Kong] has really developed my sense of thinking differently and approaching an issue in an analytical and purposeful way but with respect."

In his current role, Boswell struggles to achieve a work-life balance. "I'm not sure how you get work-life balance, particularly when so much of my work is done on the phone and in multiple time zones," he says.

He retains his interest in cricket and other sports, such as New Zealand's All Blacks rugby team and NBA basketball. He also likes to travel. "I really enjoy exploring new locations and also returning to frequently visited ones to see how they have evolved," he says. "Shanghai is a great example of that."

Boswell stresses the importance of physical activity. "What I have found in the past three or four years is that the gym and outdoor activities are great for my physical and mental health, so I try to make sure I do some exercise four to five times a week. Sometimes with work travel, though, that number can range from zero to seven times." He also credits his wife for his current success "I have an amazing and successful wife and I find her counsel and support incredibly useful in work and life – she gives me some balance!"

# A position of calm

It can be tough finding a moment to slow down in a busy city like Hong Kong. But for three Institute members, it's absolutely necessary. They tell Erin Hale how yoga keeps them calm and flexible on and off the mat

Photography by Leslie Montgomery

Some years ago, Lenny Wong found that he was having sleepless nights from his work as an external auditor. While he enjoyed his job, the stress had started giving him insomnia. In a search for relief, Wong came across an amusing book on yoga postures named after animals.

"I started self-practicing by following the book, and my sleeping quality improved a lot," says Wong, General Manager of Corporate Governance at Li & Fung. He kept practicing on his own, and after two years he decided to start attending formal classes to learn more about yoga.

"My first yoga class was after a busy workday in 2005 – my mind was filled with lots of work issues that day. But after the class and some deep relaxation, I could finally think of solutions for most of the issues," he says. "Yoga helps to clear the mind."

This sense of relaxation and stress relief are just two of the many reasons why more CPAs are turning to yoga to help them manage the complexities found in their roles. Some look to yoga to help improve their overall physical fitness and flexibility, or as a complement to other sports that will help them stave off injuries.

"With regular yoga practice, we can achieve a balance of body strength and flexibility, and higher awareness of ourselves. I also apply this concept to real life," he says. "When I handle daily affairs, I maintain a good balance of strength and flexibility in each situation," Wong says.

## Finding the right class

"Yoga," which means "union" in Sanskrit has been a popular activity for well over a decade in Hong Kong, and there is no shortage of classes or styles available throughout the city. There are also several different schools of yoga, which offer different benefits, such as gentle "Hatha" yoga classes, deep and slow "Yin" classes, sweaty "Vinyasa Flow" workouts, precision-focused "Iyengar" sessions and powerful "Ashtanga" routines.

Most regular practitioners agree that yoga is best immediately after waking up. "I practice Hatha yoga and Pranayama [breathing exercises] every morning before breakfast and work. It wakes up the mind and body for a good day," says Wong. "At night time, I practice Yin yoga for deep relaxation and stress relieving for better sleep."

**"After the class and some deep relaxation, I could finally think of solutions."**

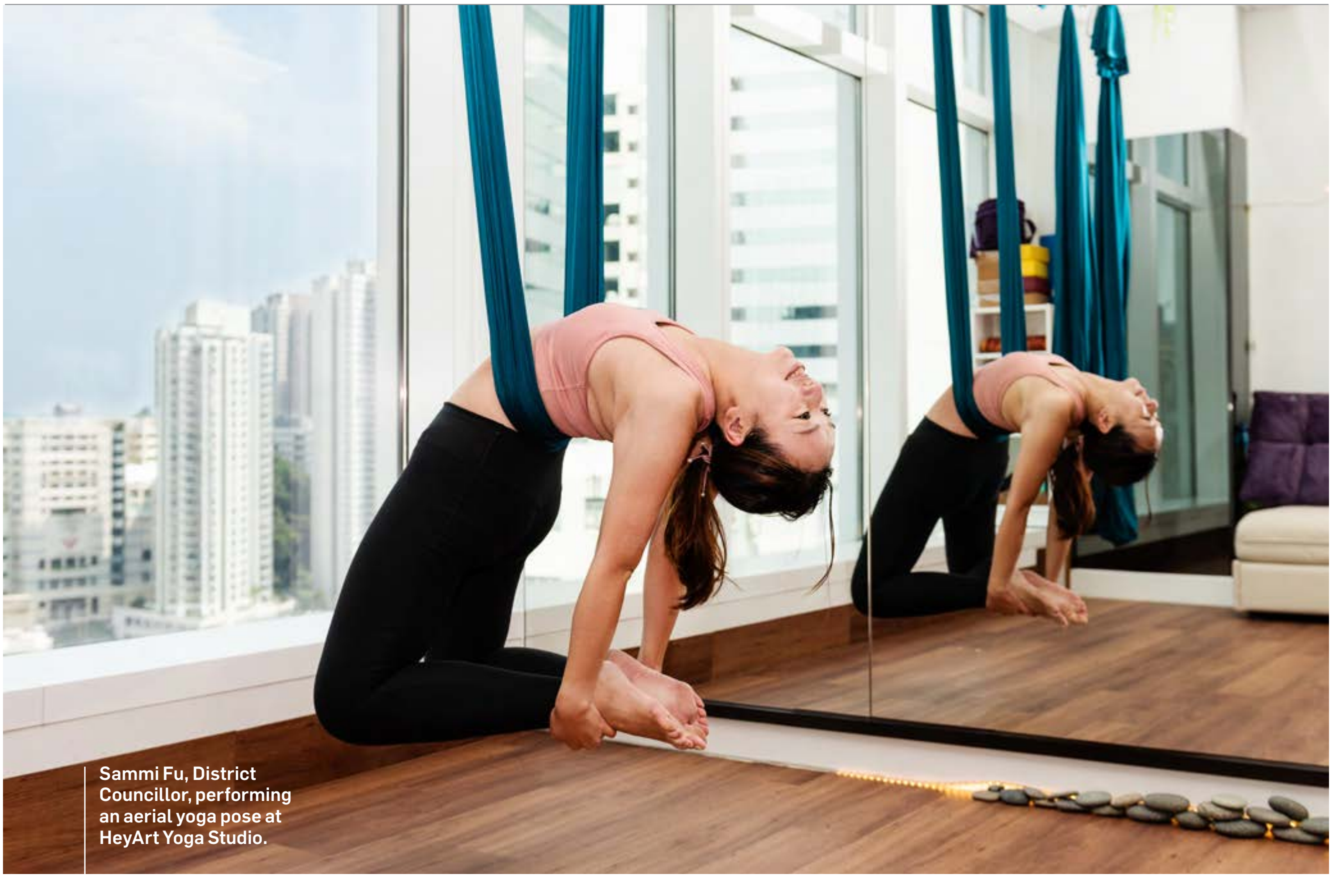
A typical yoga class or session starts with a few minutes of warm-up stretching to allow the body time to prepare for various "asanas," or postures, which are often done in a sequence. Intensity may escalate through the class, but most teachers offer alternatives if poses are too difficult for less experienced students.

Blocks, straps, and bolsters are also often used to help students achieve an extra level of stretch. Every class or session ends with "Savasana," or corpse pose, where students lay flat on the floor with their arms and legs outstretched to encourage relaxation.

## Flying with yoga

Traditional yoga classes usually take place on a mat, but in recent years aerial yoga has also picked up in Hong Kong. This version of yoga uses hammocks or swings to help students achieve acrobatic poses, often upside down or at unique angles above the ground. It increases flexibility, builds lower body strength, and is also a better choice for people with back problems.

Lenny Wong, General Manager of Corporate Governance at Li & Fung.



Sammi Fu, District Councillor, performing an aerial yoga pose at HeyArt Yoga Studio.

The dramatic poses are what drew Sammi Fu to this unique form of yoga, which she has been practicing for several years. Fu, District Councillor, says that aerial yoga has helped her deal with work-related stress better. It has also given her an opportunity to improve her athleticism – something she did not think was possible before yoga.

"When I was young, my cardiovascular function was not good enough and it was pretty hard for me to do exercises like running. I felt tired very easily," Fu explains. "My mum always said that I normally give up on doing something, but yoga is the only thing I have kept doing for a long time."

**"It took some time for me to overcome my fears at first, but I can see the improvements."**

As Fu's first encounter with yoga, aerial yoga has also helped her to improve her core and arm strength, and previously existing pain in her shoulders has gone away since she started practicing. While intimidating and challenging at first, she began to see results just after three months of steadily attending classes.

"It took some time for me to overcome my fears at first, but I can see the improvements," Fu says. "There were some postures I really couldn't do at the beginning, but I could suddenly do them after a few months."

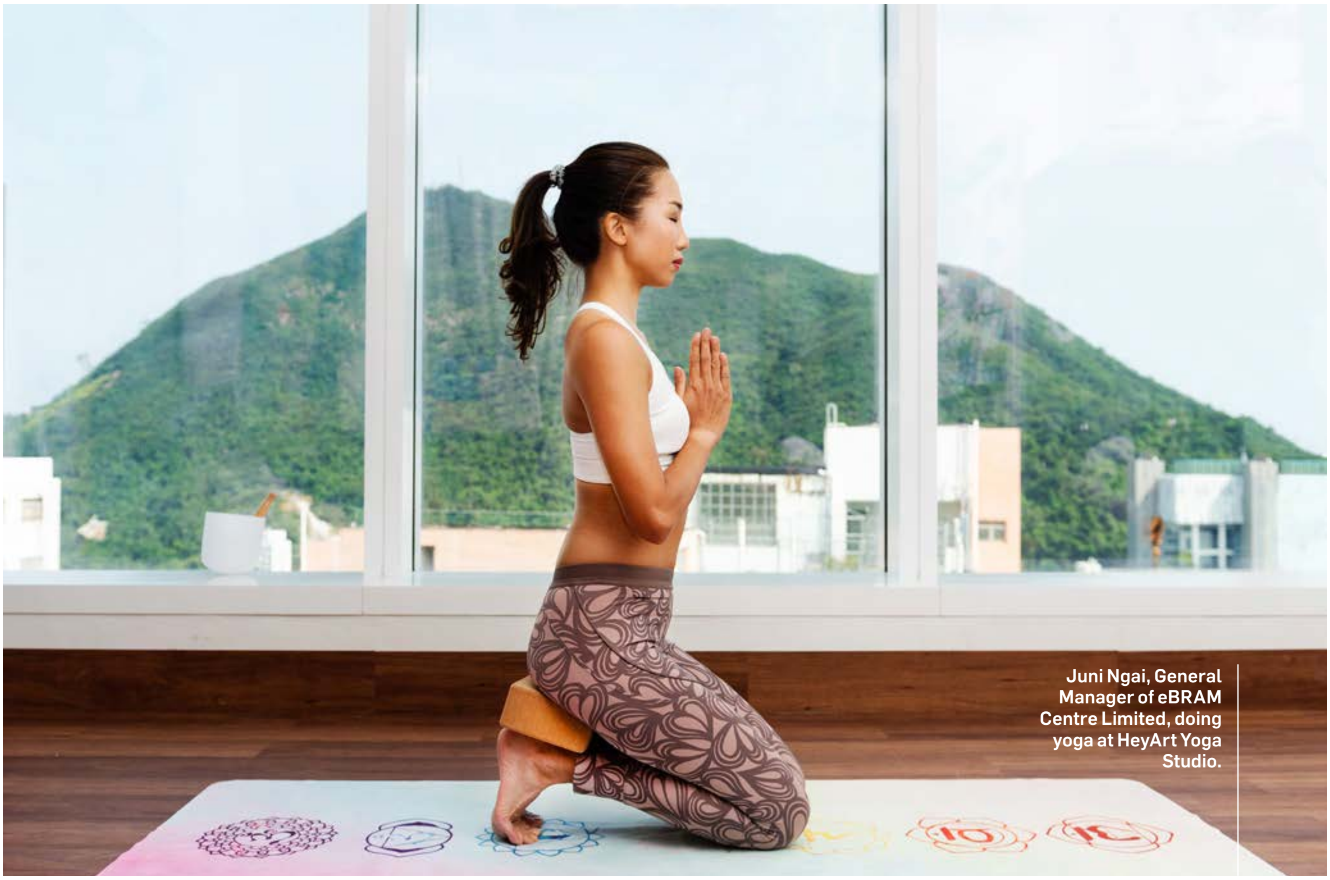
## A life-changing experience

Juni Ngai, General Manager of eBRAM Centre Limited and Convenor of the Institute's Athletics Interest Group, first tried yoga more than a decade ago. She was studying for her Qualification Programme exams and decided to bring her books to a resort in Thailand. While staying there, she decided to try one of the resort's yoga classes.

"When I tried yoga the first time in Koh Samui, I spent five days at the resort and attended the yoga morning and afternoon classes in the jungle. That was quite an experience for me," she says. "In my 16 years of practice, I had the best Savasana, the relaxation pose at the end of the session, in the first week. With the instructions of the teachers, I felt my body melt into the ground – I was totally relaxed."

After her trip to Thailand, Ngai kept studying yoga, although it was not as popular in Hong Kong at the time. She eventually joined local gym Pure Fitness. "I would run up to Pure right after work at 5:30 p.m. every day – just in time for the 6:00 p.m. yoga class," Ngai recalls. "I once took 30 classes in one month! I would go all the way to Central to attend two classes, even on Saturdays."

Eager to improve, Ngai began to study on her own and bought a number of books on yoga, including one on Iyengar yoga, a school of yoga that puts a strong emphasis on breathing and the technical



Juni Ngai, General Manager of eBRAM Centre Limited, doing yoga at HeyArt Yoga Studio.

alignment of postures, which are held for long periods of time.

Her passion for the discipline also sent her to India to attend a 30-day training course. Over that intense month, Ngai not only learned new poses and how to teach them, but also the theory behind yoga. Her passion led her to also attend classes on Ayurveda, the school of medicine related to yoga, and reiki, a holistic form of "energy healing."

While Ngai did not become a professional yoga teacher, she used much of what she learned in her own practice after returning to her CPA life after India. She says that yoga has helped with her mental well-being. "If you feel uptight, it means you are holding onto something. Yoga teaches you how to let go, and once you do, you become flexible: flexible body, flexible mind," she says.

"People who work in accounting need to be flexible. They need an open mind to really see what other people cannot see to make better decisions."

**"If you feel uptight, it means you are holding onto something. Yoga teaches you how to let go, and once you do, you become flexible."**

Her feelings are echoed by Wong, who says that yoga positively influences everyday life. "When doing yoga poses, we are aware of our breathing and focus on each pose, especially more advanced ones which require good balance. This is how we bring our attention to the present moment," he says.

"Outside the yoga mat, we extend this awareness to our daily lives. We observe ourselves, our breathing, and refocus our attention to stay in the present. Yoga is an all-day practice which trains our mindfulness."

## Starting from scratch

Though it may seem intimidating, Ngai recommends CPAs who are interested in yoga to start by attending multiple classes a week, relative to their level of fitness. This gives their body time to adjust. "Try five classes a week," she says. "You won't feel a difference after one class."

Fu, who has even introduced yoga to the elderly, says age is no excuse. "They are in their 70s and 80s and they can still do it. Because they don't stretch much, this encourages them to do more simple stretching," she says. "Over time, many of them have found they can stretch in new positions that they once thought were impossible."

Wong reminds CPAs to simply approach yoga with an open mind. "Many people do not try yoga because they think they are not flexible enough or because of their own religious beliefs," he says. "As with everything new in life, we may have fears and concerns at first, but we won't know until we try."

*A Plus* is looking for Institute members who enjoy doing urban farming or art (painting, drawing etc.) in their spare time for an upcoming issue. If that sounds like you and you're interested in being featured in the magazine, please send an email to *jeremy.chan@mandl.asia.*

# Applying the new revenue recognition requirements in the insurance intermediary industry

Hong Kong Financial Reporting Standard (HKFRS) 15 *Revenue from Contracts with Customers* became effective on 1 January 2018. Insurance intermediaries will need to assess their contracts with customers to determine how HKFRS 15 affects the timing and amount of revenue recognized.

The core principle in HKFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, by applying the following five steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) an entity satisfies a performance obligation.

This article provides illustrative examples to help insurance intermediaries address some key issues that have arisen when applying steps 2 and 3 to typical client and agency agreements. Insurance intermediaries are insurance agents or insurance brokers. An insurance agent normally represents an insurance company and is authorized to sell the company's products. An insurance broker normally represents policyholders and may have agreements with a number of insurance companies.

## Identification of performance obligations

It is common for an insurance intermediary to provide multiple services to a customer, which might be bundled together in a single contract. For example, an insurance broker might provide a policyholder both a policy placement service and a claims handling service under a single agreement.

Insurance intermediaries should not assume that performance obligations under HKFRS 15 will be the same as the separately-identified service components under Hong Kong Accounting Standard (HKAS) 18 *Revenue*. HKFRS 15 introduces comprehensive guidance on identifying performance obligations, which could result in the services in the contract being unbundled even if this was not required previously (or vice versa).

An entity identifies as a performance obligation each promise to transfer to the customer either a good or service (or a bundle of goods or services) that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (HKFRS 15.22). Identifying performance obligations in a contract under HKFRS 15 requires judgement. HKFRS 15.27 states that a good or service promised to a customer is distinct if **both** of the following criteria are met:

(a) The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Paragraphs HKFRS 15.28-29 provide further guidance on how to apply these criteria.

The following example illustrates how an insurance intermediary might evaluate a contract with a customer to identify the performance obligations under HKFRS 15.

### Example 1: Promised services in a contract

**a. Contract with a prospective policyholder**

Entity A is an insurance broker. It provides policy placement and/or claims handling services to prospective and existing policyholders. It may provide either one or both of the services depending on the terms of the contracts.

Entity A enters into a client agreement with Mr. Lee, a prospective policyholder. The client agreement states that:

- Entity A will assist in sourcing the best coverage for Mr. Lee and arrange insurance cover on his behalf.
- Mr. Lee will make the final decision on selecting the insurance policy.
- Entity A will be remunerated by a commission which is an agreed-upon percentage of the insurance premium, paid by Mr. Lee, quoted by the selected insurance company.
- Entity A will assist Mr. Lee in handling claims as and when he requests. Services include completing and submitting claim forms and collecting claim payments from the insurance company on his behalf. No additional fee is charged for the claims handling services in this contract.
- Entity A provides a number of insurance quotations for Mr. Lee to consider. Subsequently, Mr. Lee decides to purchase an insurance policy from XYZ Co.

**Analysis**

Entity A determines that Mr. Lee is its customer under HKFRS 15 as Mr. Lee has

Table 1 - Assessment of the criteria in HKFRS 15.27 for example 1(a)

| | Policy placement service | Claims handling service |
|---|---|---|
| **Criterion 1 [HKFRS 15.27(a)] – capable of being distinct?** | Yes.<br>Mr. Lee could benefit from Entity A's policy placement service on its own by choosing to deal with the insurance company directly for the claims, or together with the claims handling service from an alternative insurance broker. | Yes.<br>Mr. Lee could benefit from Entity A's claims handling service for his existing policies that were not placed by Entity A. |
| **Criterion 2 [HKFRS 15.27(b)] – distinct within the context of the contract?<br>[Consider the principle and factors in HKFRS 15.29]** | Yes.<br>The services are separately identifiable from each other in this contract because Mr. Lee could choose to purchase one of the services without significantly affecting the chosen service (i.e. the two services are not highly dependent or highly interrelated and they are not significantly customized). | |

contracted with Entity A to obtain services that are outputs its ordinary activities.

Entity A identifies two promised services in the contract with Mr. Lee:

1. Policy placement service – matching the insurance policy with the pre-identified criteria he set out.
2. Claims handling service – completing and submitting claim forms.

Entity A then evaluates whether the two promised services are distinct, that is if they meet both of the criteria in HKFRS 15.27 (see Table 1).

Based on the analysis, Entity A concludes that the policy placement service and the claims handling service are two separate performance obligations in the contract.

**b. Contract with the insurance company**

Entity B is an insurance agent. It provides policy placement service and/or premium collection service to insurance companies. It may provide either one or both of the services to an insurance company depending on the terms of the contracts.

Entity B enters into an agency agreement with XYZ Co which states that:

- For all policies Entity B places on behalf of XYZ Co, Entity B will be responsible for verifying whether the information provided by the policyholder is valid and will explain to new policyholders the terms and other administrative procedures of the insurance policy on behalf of XYZ Co.
- Entity B will collect insurance premiums from policyholders and remit them to XYZ Co. Entity B will also follow up with policyholders for any overdue premiums such as sending settlement reminders to the policyholder.
- XYZ Co will accept any claim application that is submitted either by a policyholder directly or through Entity B.

**Analysis**

Entity B determines that the insurance company is its customer under HKFRS 15 as XYZ Co has contracted with Entity B to obtain services that are outputs of its ordinary activities in exchange for consideration.

Entity B identifies two promised services in the contract with XYZ Co:

1. Policy placement service – sourcing potential policyholders, verifying their information, explaining the terms and other administrative procedures of the insurance contracts, and arranging premium payment to XYZ Co at contract inception.
2. Premium collection service – collecting ongoing insurance premiums from policyholders on behalf of XYZ Co.

Similar to example 1(a), Entity B should evaluate whether the two promised services are distinct. Based on Table 2, Entity B concludes that the policy placement service and the premium collection service are two separate performance obligations in the contract with XYZ Co.

## Implicit promises

A contract with a customer generally explicitly states the goods or services that an insurance intermediary promises to transfer to the customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract. A contract may also include promises that are implied by an intermediary's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the insurance intermediary will transfer a good or service to the customer (HKFRS 15.24).

The following two examples illustrate how an insurance broker might identify

Table 2 - Assessment of the criteria in HKFRS 15.27 for example 1(b)

| | Policy placement service | Premium collection service |
|---|---|---|
| Criterion 1 [HKFRS 15.27(a)] – capable of being distinct? | Yes.<br>XYZ Co can benefit from Entity B's policy placement service on its own by choosing to collect the premiums itself – or using the premium collection service provided by another party. | Yes.<br>XYZ Co can benefit from Entity B's premium collection service for existing policies that were placed by other brokers. |
| Criterion 2 [HKFRS 15.27(b)] – distinct within the context of the contract? [Consider the principle and factors in HKFRS 15.29] | Yes.<br>The policy placement service and the premium collection service are separately identifiable from each other in this contract because XYZ Co could choose to purchase only one of the services without significantly affecting the chosen service (i.e. the two promises are not highly dependent or highly interrelated with each other and they are not significantly customized). | |

implicit promises in a contract under HKFRS 15.

### Example 2: Implicit promise of services

Entity X is an insurance broker. It has a historical practice of offering customers a free claims handling service.

ABC Co, a manufacturing company, would like to purchase comprehensive group medical insurance for its employees. Entity X arranged a briefing session for ABC Co to introduce its brokering services. Entity X indicated that it has provided a claims handling service for its customers in the past for no additional charge but did not explicitly promise ABC Co this service during negotiations. The final client agreement was for an insurance placement service and did not specify the provision of the claims handling service.

**Analysis**
On the basis of its customary business practice, Entity X determines at contract inception that it has made an implicit promise to provide a claims handling service to ABC Co. That is, in accordance with HKFRS 15.24, Entity X's past practice of providing the claims handling service to other customers creates a valid expectation of ABC Co that it will receive a claims handling service. Consequently, Entity X identifies this implicit promise as a performance obligation.

### Example 3: No implicit promise of services

Using the facts above, but it is not the customary business practice of Entity X to provide a free claims handling service. Therefore, at the time of entering into the contract ABC Co does not have a valid expectation that Entity X will provide this service at no additional charge.

After entering into the client agreement to provide the policy placement service, ABC Co asks Entity X for assistance in filing a claim under its insurance policy. In order to maintain the relationship, Entity X agrees to assist in submitting the claim and seeking reimbursement from the insurance company on behalf of ABC Co for no additional consideration.

**Analysis**
The promise of handling claims is not included in the contract nor was it considered part of Entity X's customary business practice at contract inception. Therefore when applying HKFRS 15.24, Entity X has not explicitly or implicitly promised to provide a claims handling service. Consequently, Entity X does not identify this as a performance obligation. However, Entity X should assess whether it would continue to help ABC Co in handling future claims and whether its actions create a present obligation to provide such a service. If so, this obligation may need to be accounted for under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Moreover, Entity X should consider whether this claim handling assistance has created a valid expectation of a complementary claims handling service to ABC Co and other potential customers when they negotiate new policies. If so, this would give rise to an implicit promise to provide the claims handling service and be a separate performance obligation.

### Determination of the transaction price when there is variable consideration

Once an insurance intermediary identifies the performance obligations in a contract, the transaction price will need to be determined and allocated to those performance obligations.

In determining the transaction price, an insurance intermediary considers the effect of variable consideration. In some cases, the consideration may be variable because it is contingent on the outcome of future events, such as policy cancellations, lapses or renewals, volume of business or claims experience.

Under HKAS 18, insurance

intermediaries often deferred recognition of variable consideration until revenue was reliably measurable, for example when the uncertainty was removed or when payment was received. Under HKFRS 15, the amount of variable consideration is estimated using either the expected value (the sum of probability-weighted amounts) or the most likely amount – depending on which method the entity expects to better predict the amount of consideration to which it will be entitled (HKFRS 15.53). An insurance intermediary should update its estimated transaction price, including the estimate of the variable consideration at the end of each reporting period for any changes in circumstances (HKFRS 15.59).

Variable consideration is only included in the estimated transaction price if it is highly probable that a significant reversal in the cumulative revenue recognized will not occur in future periods (HKFRS 15.56). In applying this requirement, insurance intermediaries should consider both the likelihood and the magnitude of the revenue reversal. HKFRS 15.57 provides examples of factors that could increase the likelihood or the magnitude of a revenue reversal.

The example below illustrates how an insurance agent might estimate the variable consideration, including assessing whether the estimate is constrained.

## Example 4: Commissions with clawback provisions

Entity Y, an insurance agent, has a contract with an insurance company. The insurance company pays Entity Y commission of 10 percent of the premiums on a medical insurance policy for every successfully placed policy. Commission is due when Entity Y issues the policyholder the premiums due notice. Entity Y is required to return the full amount of commission to the insurance company if the insurance policy is cancelled within six months from the date of issuing the notice.

For internal management purposes Entity Y allocates policyholders into one of three categories (A, B or C) based on factors including their age group, risk profile and occupation.

Entity Y successfully placed 100 medical insurance contracts on 15 December 20X6. All of these contracts are made with policyholders in category B. The total commissions are HK$200,000. The existence of clawback provisions causes the commissions to be variable. Entity Y should assess the amount of variable commission to be included in the transaction price.

**Analysis**

*Case A – Estimate of variable consideration (with predictive information)*

Entity Y selects the expected value method because it has a large number of contracts with similar characteristics. In order to estimate the expected value, Entity Y considers historical experience for similar types of medical insurance policies and the category to which the policyholder is allocated to derive the probability of clawback. Based on observable historical data and experience, Entity Y estimates that 2 percent of category B newly written medical insurance policies will be cancelled within six months.

Entity Y estimates the amount of variable consideration to be HK$196,000 (i.e. HK$200,000 x 98 percent). Entity Y then considers the factors in HKFRS 15.57 and assesses whether there is any constraint on the estimate i.e. whether it is highly probable that a significant reversal in the amount of the cumulative commission revenue recognized will occur by the end of the clawback period. Entity Y has significant experience in estimating policy cancellations for this category, and the cancellation rate was not significantly higher than 2 percent in recent years. In addition, the uncertainty associated with the variable consideration will be resolved within a relatively short timeframe (six months). Entity Y concludes that it is highly probable that a significant reversal of the commission revenue recognized will therefore not occur by the end of the clawback period and recognizes HK$196,000 as commission revenue.

*Case B – Estimate of variable consideration (without predictive information)*

Entity Y has limited experience in estimating policy cancellations for policyholders in category B and prior experience is considered to have little predictive value of future cancellations. Observable data indicates that the historical cancellation rate has ranged from 4-8 percent. Current market information (e.g. business confidence) indicates that there is a probability that 0-20 percent of category B newly written medical insurance policies will be cancelled within six months.

Using the expected value method, Entity Y estimates the amount of variable consideration to be HK$188,000 (using a 6 percent cancellation rate). However the market data indicates that 0-20 percent of the newly written medical insurance policies for policyholders in category B will be cancelled within six months. Entity Y cannot conclude that it is highly probable that some of the commission revenue of HK$188,000 would not be subject to clawback in the future. Consequently, Entity Y includes only HK$160,000 (HK$200,000 x 80 percent) as commission revenue considering it is highly probable that a significant reversal of revenue will not occur by the end of the clawback period.

*This article is written by the Standard Setting Department in consultation with experts from accounting firms and the insurance industry. It is intended for general reference only and has no authority. The Institute and the staff of the Institute do not accept any responsibility or liability in respect of the article and any consequences that may arise from any person acting or refraining from action as a result of any materials in the article. The department previously published an article in June 2017 on the accounting of premiums receivable from policyholders by insurance brokers.*

# Tax disputes in Hong Kong

**Alice Leung** and **Eugene Yeung** look at the tax dispute process and identify how companies can avoid pitfalls when dealing with enquiries into their tax returns

Hong Kong prides itself on its low, simple and competitive tax system. Compared with other regions, meeting tax obligations is relatively straightforward. Managing tax however is not necessarily easy and cheap.

Generally, disputes between taxpayers (predominantly corporations) and the Inland Revenue Department (IRD) begin with requests for information, usually in the form of enquiry letters. Depending on the responses, these may evolve into tax audits and tax litigations, creating uncertainty about a corporations' after-tax returns.

Tax disputes and tax risk management is now a common boardroom level discussion and demands significant senior management support and resources.

## The mechanics

A Hong Kong non-individual taxpayer is typically required to file a profits tax return annually. Under the IRD's "Assess First, Audit Later" approach, a taxpayer would generally receive an assessment and tax payment notice from the IRD as per the tax return filed. However, this is not the end.

These profits tax returns are then subject to a more detailed review by the IRD's assessors. The IRD has become more sophisticated. It has a basket of tools and wealth of knowledge which are deployed to help it identify potential issues in returns and is empowered to revisit returns and request documentary evidence from taxpayers within a statutory time limit.

If the IRD consider they need further information to justify the tax positions taken, they will issue enquiry letters to the taxpayers which would generally contain a list of information requested. If the taxpayer determines that they do not have sufficient documentation to justify their tax position, they may choose to revise it at this time.

The onus of proof rests with taxpayers and is considered based on the balance of probabilities (as opposed to being beyond reasonable doubt, as would be required in a criminal case). Therefore, taxpayers are required to provide sufficient documentary evidence to support their tax positions.

It is important to respond to an IRD enquiry within the timeframe prescribed and notify them if there are any delays. The information provided should be relevant, succinct and accurate. Other than a taxpayer's statutory and moral obligations, an incomplete or inaccurate response could trigger further questioning and/or may lead to an expansion of scope to other items in the tax return. Providing a detailed reply would be far more convincing and demonstrate that the taxpayer has maintained contemporaneous records.

This seems to be easy in theory but not in practice. With communications being digitized, it is unexpectedly easy to lose records – particularly if best-practice record keeping is not followed. For example, from the removal of email accounts following the departure of an employee. Also, the destruction of paper or electronic records due to unsuitable archiving policies can be problematic, as tax dispute cases can last a long time, and information may be requested beyond the statutory business record retention period.

For companies with complex tax positions – such as full or partial offshore profits claims and transfer pricing – IRD attention can be expected. The IRD's enquiry letter would include a detailed information request list to best understand the taxpayer's profits tax return and ensure there is sufficient justification for it. The IRD would look for evidence including contracts, travel records, transfer pricing reports, emails and correspondences, invoices and receipts, bank transaction records, etc.

These often end up being back-and-forth exchanges, which create significant workloads for the taxpayer's finance and tax teams. In addition to the effort of recovering the historical records, taxpayers need to select what to submit wisely. As the IRD may also ask for details of commercial arrangements (or distinguish differences thereof) that the teams may only have limited knowledge, they will need to work with other business units to formulate replies to the IRD. Hence, the work pressure in effect stretches out to other parts of the business.

## Tax audits and investigations

If the IRD identifies potential red flags in the initial review, a detailed review could be triggered. Common red flag indicators include:

- Long unsettled tax enquiries
- Fluctuations in financial positions
- Businesses involving largely cash transactions
- Publically available information which is inconsistent with the taxpayer's representations in the tax returns and replies. Sources used by the IRD include listing prospectus, the internet and advertisements, and information from other tax authorities obtained through established exchange mechanisms etc.


Once potential cases are identified, a specialized team in the IRD will initiate the investigation process. These "Unit 4 cases," named after the specialized team, typically involve a review of tax filing positions (including offshore claims, transfer pricing, etc.) and suspicious or incomplete records. The team is tasked with identifying non-disclosure of facts and information which led to tax under-assessment; excessive tax deductions of expenses through over-reporting or fabrication of deductible expenses.

A long history of tax enquiries and suspicious responses to IRD enquiries are also catalysts to tax audits. It is possible that Unit 4 officers would continue issuing enquiry letters to further probe a taxpayer's tax position. There are also cases where the IRD would start a tax audit right away.

The IRD has laid down the procedures for tax audit and investigation cases in its Departmental Interpretation and Practice Note 11. Following this guidance, Unit 4 officers would propose beginning an investigation through an initial interview with the taxpayer. This interview would be with key personnel of the taxpayer including its directors, chief financial officer, finance and operational teams. The discussions and information collected during the interview help the IRD to paint a picture of the modus operandi of the business and – perhaps more importantly – a taxpayer's tax governance framework (that is, how it manages its tax compliance and internal controls).

For the taxpayer, preparation for the initial interview is vital. By the time of an interview most taxpayers will already have an understanding of where the potential "softness" is in relation to their tax position. Preparing interviewees and having the relevant supporting documentation readily available is key for demonstrating to the IRD that the taxpayer can support their tax position.

A taxpayer has a relatively limited amount of time after the initial interview to voluntarily disclose any inappropriate or incorrect tax filing position taken in its tax returns. However it is usually difficult to perform a proper voluntary disclosure without some prior preparation and review. The advantage of doing so is that the IRD would leniently consider penalties.

Following the initial interview, the assessor would usually issue a series of requests to validate the information obtained during the initial interview. This is expected to be at least as onerous as the previous requests for information, and requiring much more details, such as raw accounting data, emails or other archived information. Taxpayers may feel that they are providing information that exceeds the on the balance of probability level.

According to the IRD's statistics, most Unit 4 cases are settled on a compromise basis between the taxpayer and the IRD. This settlement will be based on sound technical grounds, supported by facts and common ground between the parties.

Depending on the IRD's findings of the audit, they may impose penalties (see Table 1) and even imprisonment for more extreme cases. The severity of penalty would depend on the nature of the incorrect information provided, the taxpayer's attitude and cooperation, and the time required to settle the case. The penalty could be up to 300 percent of the tax undercharged. For pure transfer pricing adjustments, penalties can be up to 100 percent of the tax undercharged.

Intentional under-reporting or non-disclosure of profits or over reporting or fabrication of expenses would generally trigger a high level of penalty to be imposed. In addition, taxpayer's behaviour is also a key factor, for instance, if a taxpayer is cooperative and responsive, able to provide current records, contemporaneous transfer pricing documentation, etc. to substantiate its tax position, these would be helpful factors to defend against high penalty.

## Tax litigations

If the IRD and taxpayers are unable to reach a common ground at the end of a series of enquiry letters and/or a tax audit, both sides could request the Commissioner of the Inland Revenue (commissioner) to make a determination on the case. The commissioner's determination is the IRD's final conclusion.

A taxpayer can lodge an appeal to the Board of Review for an independent review of the commissioner's determination. The Board of Review is an independent body with a more flexible platform for taxpayers to contest against the commissioner's determination. Rules including those in relation to admission of evidence and witnesses follow the court's rules. The identity of the taxpayers is kept confidential even though the Board of Review publishes cases and decisions from time to time.

Taxpayers have the right to lodge objections to the Board of Review judgments with the Court of First Instance (or directly to the Court of Appeal). Tax litigations at court level is uncommon, primarily because costs are relatively high. Potential reputational impact is also a key consideration, as court judgments

Table 1 - Section 82A penalty policy for cases involving field audit and investigation

| Category of disclosure and work involved and penalty loading (expressed as a percentage of the tax undercharged) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Nature of cases omission/ understatement | Full voluntary disclosure | | Disclosure with FULL information promptly on challenge | | Incomplete or belated disclosure | | Disclosure denied | |
| | Normal loading | Max. including commercial restitution | Normal loading | Max. including commercial restitution | Normal loading | Max. including commercial restitution | Normal loading | Max. including commercial restitution |
| The taxpayers show intentional disregard to the law and adopt deliberate cover-up tactics involving the preparation of a false set of books, padded wage rolls and fictitious entries or multiple omissions over a long period of time. | 15 | 60 | 75 | 100 | 140 | 180 | 210 | 260 |
| Slightly less serious acts or omission resulting from recklessness including the "hand in the till" type of evasion, failure to bring to account sales of scrap, and sheer gross negligence. | 10 | 45 | 50 | 75 | 110 | 150 | 150 | 200 |
| The taxpayers fail to exercise reasonable care and omit profits/income such as lease premium, one-off commission, etc. | 5 | 30 | 35 | 60 | 60 | 100 | 100 | 150 |

Note: For cases completed after 30 November 2003, the commercial restitution is at 7 percent per annum monthly compounded for periods up to and including 30 November 2003 and at the best lending rate monthly compounded for periods after 30 November 2003.

are published, disclosing the taxpayer's identity. Taxpayers can choose to defend its tax positions all the way to the Court of Final Appeal – if they have the resources.

## Tax risk and tax dispute management

Tax disputes can start from aggressive tax positions, but can also arise from unintentional errors or disclosures in the accounts or tax returns. Tax disputes may take years (or even a decade) to resolve, and the tax exposures for all years could crystallize at the same time, imposing cash flow pressure. The financial, resource and reputational impact as a result of tax disputes should not be underestimated.

Tax dispute management is a component of the wider tax risk management process and governance system that typically involves:

- **Protection** – A company should undertake a proper review and ensure adequate control of its tax return filing. Tax positions should be supported by robust technical grounds based on local legislation, with forward-looking insights from a global tax development perspective. This helps to establish a sustainable tax position. As tax disputes are always backward-looking and with the benefit of hindsight, it is important to document the prevailing thinking and rationale, and contemporaneous supporting documents to defend the position in anticipation of future challenges.
- **Management** – Tax disputes should be properly managed throughout the process. Disputes should be properly supported by internal stakeholders and senior management. Internal and external resources will be required to manage, respond and negotiate with tax authorities. A successful process is always a collaboration between external advisors and internal resources. Strong project management and coordination is vital in aligning interests and coordinating information collation across functions and jurisdictions. Managing stakeholders' expectations and tax accounting implications are also important and thus appropriate tax provision should be made to cater for potential unfavourable outcomes. A more sophisticated approach for managing significant tax issues also involves engaging the appropriate parties to lobby for changes in tax laws or tax authorities' views and assessing practices to secure certainty.
- **Resolution** – Resolving a tax dispute is often based on compromise and negotiation. There is always an uncertainty in the tax litigation process as even a perfect plan may fail for unpredictable reasons. Therefore, it is important to know your tax position and make timely informed decisions. This may include whether to pursue a compromise settlement or to litigate. It is important to use all available procedures and processes to help bring effective and efficient closure to your disputes.

There are certain processes and tools available to make sure the tax dispute management process is properly conducted. Management should consistently review its tax position based on the prevailing tax laws and developments. They should regularly revisit tax structures and make changes to operations and tax profile promptly in light of rule and operational changes. A periodic revisit of documentation can identify deficiencies, or data loss, which can assist management in taking remedial actions before it is too late – this is important as current documentation is one of the factors for mitigating severe penalties.

During the tax audit and resolution stage a constant reality check is key to help management to make an early decision to settle in order to avoid wasting resources and building up interest/penalties. Sufficient tax governance and controls can make sure matters are implemented as planned, and any exceptions could be identified, alerted and escalated internally at an early stage in order to take remedial actions. Technology can also ensure consistency and data retention.

## Remarks

The tax landscape is changing – tax is becoming more transparent. The way tax authorities review tax returns is also changing. Tax authorities may have access to more information through public sources or from other tax jurisdictions. Tax authorities are also expecting more robust and timely information from taxpayers. Tax disputes are more challenging to handle as tax authorities have more information at their disposal, coupled with authorities' increasingly stringent enforcement. Taxpayers should update themselves to prepare for tax audits by relying on technology.

Remember, tax disputes may occur at any time and preparation should not be a reactive "after-event" action, but an ongoing tax risk management process in anticipation of disputes arising at any time. Taxpayers should be prepared to face such challenge on a real time basis. Managing tax disputes not only requires additional budget and resources it also may impact the financial statements. Tax provisions may need to be included within the disclosures of the financial statements, thereby impacting the after-tax profitability of the taxpayer. Where the IRD is successful with a challenge, the taxpayer will also need to manage the impact to the cash flow and – perhaps more importantly – the potential reputational damage.

This article is co-authored by **Alice Leung,** Tax Partner, and **Eugene Yeung**, Tax Director, of KPMG's Corporate Tax Advisory practice in Hong Kong.

# TechWatch 200

## The latest standards and technical developments

## Local updates

**Invitations to comment**

The Institute is seeking comments on:

- The International Accounting Standards Board (IASB) exposure draft ED/2019/02 Annual Improvements to IFRS Standards 2018-2020 by 22 July.
- The IASB exposure draft ED/2019/03 Reference to the Conceptual Framework IASB (Proposed amendments to IFRS 3) by 23 August.
- The International Auditing and Assurance Standards Board's discussion paper on Audits of Less Complex Entities by 12 August.

**Update on HKFRS/IFRS 17 *Insurance Contracts***

The Standard Setting Department of the Institute has issued issue five of its update newsletter on HKFRS 17 *Insurance Contracts*. Previous newsletters can be found on the Institute's website.

## Professional accountants in business

**Future-ready accountants in business**

What does being future-ready mean?

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has recently released a report, which provides insight into what it will take to prepare future-ready professional accountants. The report also captures conversations and takeaways from the IFAC PAIB Committee meeting held in March.

Key topics covered include:

- Finance function transformation, with a case study from Prudential Financial, Inc.
- Building data science and analytics capabilities.
- Supporting accountants in professional ethics.
- Effective risk management and internal control.
- Examining the role of the audit committee.

Some of the more detailed content has been reproduced in four articles, which are referenced in the report:

- Building data science and analytics capabilities in finance and accounting
- Paying professional ethics more than lip service
- Accountants enabling effective enterprise risk management
- Examining the role of audit committees: four perspectives

**HKMA introduces key measures on sustainable banking and green finance**

The Hong Kong Monetary Authority (HKMA), in support of the mission to reduce climate change risks and to achieve sustainable finance, has published three sets of measures to support and promote Hong Kong's green finance development:

(a) Green and sustainable banking: Three phases developing and implementing a common framework to assess the "greenness baseline" of individual banks.

(b) Responsible investment: As manager of the exchange fund, HKMA would give priority to green and environmental, social and governance (ESG) investments if the long-term return is comparable to other investments on a risk-adjusted basis.

(c) Centre for green finance: Established under the HKMA Infrastructure Financing Facilitation Office, it will serve as a platform for technical support and experience sharing for the green development of the Hong Kong banking and finance industry.

## Corporate governance

**HKEX seeks views on strengthening ESG rules and publishes guidance materials on ESG and gender diversity**

On 17 May, Hong Kong Exchanges and Clearing (HKEX) issued a consultation paper to support and improve issuers' governance and disclosure of ESG activities and metrics.

This consultation reflects the exchange's commitment to enhancing ESG reporting and disclosure by listed companies, and builds upon its ongoing ESG-related efforts since the launch of the ESG reporting guide in 2013.

Key proposals:

- Introducing mandatory disclosure requirements in the ESG Reporting Guide to include:
  - A board statement setting out the board's consideration of ESG issues; and
  - Applications of relevant reporting principles and boundaries in the ESG report.
- Requiring disclosure of significant climate-related issues which have impacted and may impact the issuer;
- Amending the "environmental" key performance indicators (KPIs) to require disclosure of relevant targets;
- Upgrading the disclosure obligation of "social" KPIs to "comply or explain;" and
- Shortening the deadline for publication of ESG reports to align with the publication timeframe of the annual report (i.e. within four months (Main Board issuers) or three months (GEM issuers) after the year-end date).

The deadline for responding to the ESG consultation is 19 July.

HKEX has also launched an e-training course, "ESG Governance and Reporting," which explains the board's leadership role in ESG matters and covers the following six topics:

- What is ESG, and why is it important?
- Board's role in ESG governance.
- Why report on ESG?
- Essential elements in an ESG report.
- Details on ESG reporting.
- ESG disclosure by IPO applicants.

Frequently asked questions (FAQs) No. 24K and 24L in Series 17 and FAQ No. 2A in Series 18 have been added to clarify how different aspects of ESG relate to the Corporate Governance Code.

In respect of disclosure in listing documents by new applicants, HKEX has revised Guidance Letter HKEX-GL86-16 to require additional disclosure on policy relating to board diversity (including gender) and how gender diversity of the board can be achieved in the case of a single gender board. The revised guidance letter also sets out our expected disclosure on ESG matters, including material information on applicants' environmental policies, and details of the process used to identify, evaluate and manage significant ESG risks.

Please refer to the press release for details.

## Corporate finance

**HKEX publishes conclusions on proposed rule changes relating to disclaimer or adverse audit opinion on issuer's financial statements**

HKEX has published consultation conclusions on the proposed suspension requirements for listed issuers with disclaimer or adverse audit opinion on their financial statements on 24 May. The Institute submitted its views on 13 December 2018.

After taking into consideration comments from respondents, HKEX decided to implement the proposal with the following modifications.

*Modified suspension requirement*

The HKEX considered that suspending companies with going concern issues could accelerate their demise and create financial hardship for these issuers. Hence, the HKEX has revised the proposal and the suspension requirement will not apply where (i) the disclaimer or adverse opinion relates solely to going concern; or (ii) the underlying issue giving rise to the audit modification has been resolved before the issuer publishes the preliminary results announcement.

*Modified remedial period*

Under the current rules, issuers may be delisted after continuous suspension for 18 months (12 months for a GEM issuer). HKEX has modified the proposal so that if the resolution of issues giving rise to the disclaimer/adverse opinion is outside the issuer's control, a longer remedial period may be allowed on a case-by-case basis.

*Transitional arrangement*

In addition, HKEX will provide a transitional period such that the remedial period will be extended to 24 months for both Main Board and GEM issuers that are suspended due solely to a disclaimer or adverse opinion being issued in the first two financial years after the implementation of the new rule (i.e. for the financial years commencing on or after 1 September 2019 and up to and including 31 August 2021).

The new rules will apply to issuers' preliminary annual results announcements for financial years commencing on or after 1 September 2019. The amendments to the Main Board Listing Rules and amendments to the GEM Listing Rules can be downloaded from the HKEX website. An updated Guidance Letter on Long Suspension and Delisting, which provides further guidance relating to the suspension requirement and circumstances in which the HKEX may consider allowing a longer remedial period, is also provided.

Please refer to the press release for details.

## Taxation

**Announcements by the Inland Revenue Department**

Members may wish to be aware of the following matters:

- Application for Certificate of Resident Status relating to the Circular of the State Taxation Administration on Matters Concerning "Beneficial Owners" in Tax Treaties (STA Circular 2018 No. 9).
- The Inland Revenue Department (IRD) has issued Departmental Interpretation and Practice Notes (DIPN) No. 56 and DIPN No. 57 to explain the conditions for deduction of the premiums under the Voluntary Health Insurance Scheme and for annuity premiums and voluntary contributions to Mandatory Provident Fund (MPF) schemes, respectively.
- A revised version of DIPN No. 23 *Recognized Retirement Schemes* has also been issued, to reflect legislative changes relating to MPF schemes and set out IRD's revised assessing practice relating to defined benefit schemes.
- List of Qualifying Debt Instruments (as at 31 March).

- Tax Obligations of Taxpayers and Employers.
- Business Registration Notice.
- Stamp Duty statistics (April).
- Taxpayer convicted of making false claims for allowances.

### Annual meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the IRD took place on 10 May. At the meeting, the IRD confirmed the due dates for lodging profits tax returns for the year of assessment 2018-19. These are highlighted for members' attention:

| Accounting date | Extended due date | Further extended due date (if opting for e-filing) |
|---|---|---|
| "N" Code | 2 May 2019 (no extension) | 16 May 2019 |
| "D" Code | 15 August 2019 | 29 August 2019 |
| "M" Code | 15 November 2019 | 29 November 2019 |
| "M" Code - current year loss cases | 31 January 2020 | 31 January 2020 (same as paper returns) |

## Legislation and other initiatives

### Anti-money laundering notices and news

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations (UN) sanctions, members should refer to the Institute's AML webpage which is updated regularly. The UN sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of UN sanctions currently in force in Hong Kong.

The Financial Action Task Force has recently published its mutual evaluation report on the anti-money laundering and counter-terrorist financing measures in the People's Republic of China. Hong Kong also underwent a mutual evaluation during 2018 and the report is due to be published quite soon.

### AML/CFT guidance

For mandatory guidance and information on the AML/CFT requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*.

Members who are licensed trust or company service providers should also see the *Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers*, by Companies Registry.

Members should be aware of the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* (in particular Chapter 6, covering designated non-financial businesses and professions, including accountants), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.

### Licensing under the Property Management Services Ordinance

Members may recall that the Institute issued a submission expressing concern over proposals in the consultation on the "Proposed Licensing Regime for Property Management Companies and Property Management Practitioners," issued by the Property Management Services Authority (PMSA) in November 2018 (refer to TechWatch issue 196 in *A Plus* February 2019).

The PMSA has recently issued a major proposals "Fact sheet on PMSA licensing regime" on its website after consideration of the feedback received from stakeholders, including the Institute's submission. In the proposals, it is clarified that an individual who assumes a managerial or supervisory role in relation to part of, but not all, the property management services provided by a property management company (PMC) is not required to hold a property management practitioner (PMP) license. Therefore, an accountant working in supervisory role in a PMC and providing only Category 4, Finance and asset management relating to a property, i.e. services for the budgeting, or management of finance, accounts or asset relating to a property, should not be required to be licensed. Other clarifications are also provided in the fact sheet.

Please refer to the full version of TechWatch 200, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

# After hours



## Book review

# Releasing the poverty trap

Title: **The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty**
Authors: **Clayton M. Christensen, Efosa Ojomo and Karen Dillon** Publisher: **HarperCollins**

In 2009, the Harvard University-educated Zambian economist Dambisa Moyo published *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa* in which she argued that official development assistance – ODA, or foreign aid – was not merely a waste of money, but a cause of poverty in developing countries. Moyo argued that ODA caused corruption and conflict and inhibited foreign investment and capital flows.

A decade later, Harvard University professor Clayton M. Christensen makes similar arguments in *The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty* except that he adds the buzzwords of innovation and disruption. Christensen and his co-authors – Efosa Ojomo, a Harvard researcher, and Karen Dillon, a journalist – try to explain the importance of innovation in creating and sustaining prosperity. They use several examples, including the United States, Japan, South Korea, and Mexico, to illustrate "innovation cultures" and examine barriers to development. They discuss the relationship between "market-creating innovations" and the development of good institutions, the reduction of corruption, and the construction and maintenance of a nation's infrastructure.

Like Moyo's book, *The Prosperity Paradox* has a particular focus on the African continent. True prosperity, the authors contend, comes not from improving poverty indicators, such as poor education and health care, non-existent infrastructure, and bad governance or corruption, or from top-down business models. Rather, it emerges from investment in grassroots entrepreneurship.

But also like Moyo, Christensen and his collaborators ignore the fact that the state – not entrepreneurs – were often the keys to success in China, Japan, Korea and many other Asian countries. Interventionist, often authoritarian, state actors nurtured industry, and encouraged, if not forced, domestic elites to invest in their own countries.

"China's recent economic growth is spectacular, especially considering the hundreds of millions of people who have been lifted out of poverty," the authors write. "The conventional story of China's growth is that discontinuities in policy initiated by Deng Xiaoping in the late 1970s unleashed the previously dormant economic giant. This is certainly true to a point. However, it is not possible to tell the story of China's rise without emphasizing the initiative of entrepreneurs and other citizens."

Christensen follows the so-called Schumpeterian approach to economic growth, in which growth is primarily driven by entrepreneurial innovations. He bolsters his arguments with support from those of a similar vein, such as Huang Yasheng, Professor of International Management at the Massachusetts Institute of Technology, who argued that China's economic policy in the 1980s was fuelled by entrepreneurship and market-driven solutions, not top-down intervention.

*The Prosperity Paradox* soon turns into a "magic formula" treatise with a selective view of the relationships between the public and private sectors. There is no explanation of how innovation can take root where the government is absent, incompetent or malign.

The control of corruption is central to economic success, the authors argue. By some estimates, corruption could be costing the Chinese government as much as US$86 billion annually. While the authors blame Chinese officials for such losses, there is, however, no roll call of Chinese entrepreneurs currently in prison on graft charges. "Note that China and many other poor countries have tried to eradicate corruption primarily by using laws, but with limited success," they write. "Paradoxically, the more laws these countries enact to fight corruption, the more corruption has seemed to spread."

Christensen argues for not so much the elimination of corruption but more of a reclassification, such as lobbying, a US$3.3 billion business in the United States. Chinese corruption, he adds, is "covert, but predictable. And thus, can be included in the calculation of the 'cost of doing business' in China."

The book notes the case of Malawi, in which the east African country created an anti-corruption framework by essentially borrowing Hong Kong's Independent Commission Against Corruption Ordinance. While Malawi is seen to have strong anti-corruption legislation, there is still a significant gap between the law as it is written and actual practice and enforcement.

"By investing in market-creating innovations," Christensen and his co-authors argue, "investors and entrepreneurs inadvertently engage in nation-building. Market-creating innovations have the ability to pull in what's needed, regardless of the existence of sound institutions or the state of corruption."

Christensen writes that he does not believe corruption can be completely eradicated from any society, but that it can be significantly mitigated. "And this matters to a society's potential for growth because limiting corruption makes room for predictability, which ultimately improves trust and transparency."

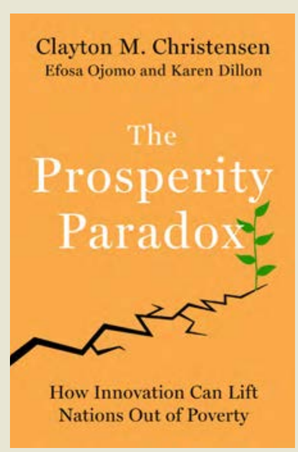
While that is no doubt true, Christensen and his co-authors ignore the role of the state at their peril.

# Author interview: Clayton M. Christensen

Much of what inspires Clayton M. Christensen, Kim B. Clark, Professor of Business Administration at the Harvard Business School, came to him in his youth as a Christian missionary. One of his first assignments was to spread the gospel as interpreted by the Church of Jesus Christ of Latter-day Saints in South Korea in the 1960s.

"When I was a missionary, South Korea was viewed by everybody as the most impoverished of the nations of Asia and just poverty was everywhere. And now the country has become quite prosperous," he says.

Later at Harvard, Christensen says, he sought to understand the process by which South Korea transformed itself, and why it wasn't a universally applicable process. "In the Philippines 30 years ago, they were an impoverished nation and they're still impoverished."




According to Christensen, innovations snowball into economic ecosystems. "And remarkable things happen when you develop innovations," he says. "People that are not consuming the existing products on the market are the engines of growth for society. Because when you make a product that targets many more people that haven't historically had access [to them,] you don't just need people to make the product, you need people to sell them, distribute them, market them, advertise and so on."

Christensen believes there are enough case studies to prove his thesis that innovation can bring growth. He cites Tolaram, a Nigerian company that brought in Indonesia's Indomie noodles. "What Tolaram has done in Nigeria is astonishing," he says. "Since its entry into Nigeria in 1988 – when Nigeria was still under military rule – Tolaram has invested more than US$350 million to create tens of thousands of jobs, developed a logistics company and built infrastructure including electricity and sewage and water treatment facilities."

It has been so successful selling 50-naira (HK$1.20) packs of noodles that it has been able to fund educational institutions and community development programmes. The company has also taken a lead role in developing a US$1.5 billion public-private partnership to build and operate a deep-water port in the state of Lagos, Nigeria's commercial capital. "Without overstating it at all, Indomie noodles is development," says Christensen.

The Harvard professor is a passionate believer in disruption and creative destruction. "Disruptive innovation allows a company to do more with less and by making it affordable and accessible," he says. "A much larger population of customers are able to use and improve on those products."

Christensen sees the current disruption in the automotive industry as a bellwether. He says he has no idea whether Tesla will win its battle for sales with existing customers. That is not the main point, he argues. "Tesla might be better at making better cars than anybody else, but [what is interesting is] that they have energized the incumbents."

## Art

### COMING BACK TO LIFE

Art enthusiasts can see paintings come to life at Van Gogh Alive: The Experience. Presented by Grande Exhibitions and Art Projects Hong Kong, the multi-sensory 13,000 square foot exhibition will showcase and project over 3,000 of Van Gogh's artwork on bright LED screens, floors, ceilings and walls – all to a breathtaking classical music score. Expect to see famous paintings such as *Starry Night*, *Café Terrace at Night* and Van Gogh's self portrait animate before your eyes.

Dates: Until 7 July
Address: 1/F, FTLife Tower,
18 Sheung Yuet Road, Kowloon Bay
Opening hours: 10:00 a.m. – 9:00 p.m.
(Monday to Thursday), 10:00 a.m. – 10:00 p.m.
(Friday to Sunday and Public Holidays)
Prices: From HK$190
Tickets: *www.tickets.vangoghalive.hk*

## Music

*Hans Zimmer*

### HANS ZIMMER LIVE

Legendary film score composer Hans Zimmer will take to the stage for the first time in Hong Kong. Playing with a live orchestra, fans will hear pieces from film scores such as *The Lion King, Gladiator, Pirates of the Caribbean, The Dark Knight* trilogy, *Dunkirk, Inception* and *Interstellar* conducted by the multi-award-winning film composer.

Date and time: 26 September,
8:00 p.m.
Venue: Hall 5BC, Hong Kong
Convention and Exhibition
Centre, Wanchai
Prices: From HK$588
Tickets: *www.hkticketing.com*

## Eat

### GET READY TO WAFFLE ON

London's famous restaurant Duck & Waffle will open in Hong Kong this autumn in IFC mall. The eatery, famed for being open 24 hours and its stunning view in London, serves contemporary British cuisine fused with ingredients and elements from other European countries. It will be bringing to the city its signature dish – confit duck leg on waffles, topped with a fried duck egg and mustard maple syrup. Its opening follows the establishment's successful pop-up at Ozone at the Ritz-Carlton Hotel back in 2016, where it also served classics from its London eatery such as bacon wrapped dates, Angus beef tartare, spicy ox cheek doughnut and foie gras crème brûlée.

*Crispy duck leg confit, a fried duck egg, crisp waffles and mustard maple syrup*

Dates: 17-23 July
Opening hours: 10:00 a.m. - 10:00 p.m. (17-18 July), 10:00 a.m. - 12:00 a.m. (Level 1) 10:00 a.m. - 11:00 p.m. (Level 3 & 5) (19-20 July), 10:00 a.m. - 10:00 p.m. (21-22 July), 9:00 a.m. - 5:00 p.m. (23 July)
Venue: Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai
Price: HK$25 (adults) HK$10 (children)
Website: *www.hkbookfair.hktdc.com*

## Exhibition

### HONG KONG BOOK FAIR

The annual Hong Kong Book Fair, now in its 30th year, returns to the city next month. With upwards of a million visitors expected to attend the week-long event, the book fair will have a variety of books on display, such as children's books, publications, religious books and even e-books with audio visual learning aids. With this year's theme being "Sci-Fi and Mystery," the fair is inviting several authors to give talks and seminars on subjects such as the development of science fiction in Hong Kong. This year will also see an art zone "Light and Shadows – the Finest Cantonese Artistry," showcasing paintings and ceramics from Lingnan, and photography of Southern China taken by famous photographers.

# The ups and downs of a flat market

## Hong Kong's humorist on the unique, yet everyday twists and turns in Hong Kong's real estate market

The property market is totally insane in Hong Kong at the moment.

So, no change there.

But financial types, such as accountants, chief financial officers, and business journalists are somehow expected to make sense of it.

The present madness reminds me of an email I received from a reader named Kathy. "I've had five landlords in nine months," the Hong Kong Island resident said.

They keep selling her apartment (with Kathy in situ) to other landlords. She's never quite sure who to pay the cash to. One day it's one guy, the next, a complete stranger.

I replied: "Well, Kathy, I think you might as well just send the money to me. I'm not your landlord, but hopefully it'll be my turn one day, and we might as well be ready."

My friend Tony, a retired police officer, bought a Kowloon-side apartment which was just a drawing on a flip chart. "You'll have the satisfaction of being the first owner of a brand new home," I told him.

"Nope," he said, explaining that the deeds had already changed hands many times. "I am the fifth owner."

As a useful guide to the insanity, and to fill space, this column will do a question and answer on the current state of real estate in Hong Kong, starting with a question or two, based on reality and then just going with the flow.

Q: Dear Mr. Know-It-All-Financial-Columnist, why did two people pay multi-million dollar deposits on apartments near where I live and then walk away from the deals?

A: This means the property market is crashing.

Q: So how come, in the same week, several apartments around the corner just sold out at premium prices?

A: This means the property market is booming.

Q: How can the market be crashing and booming at the same time?

A: This is Hong Kong. You want logic, go to Germany.

Q: I demand a better answer.

A: Hong Kong prices are in the down part of the cycle, but hot money from China doesn't care about this.

Q: So is that the hot gossip in the financial news business?

A: Yes. And the other item is this. Fourth Uncle (Hong Kong real estate billionaire Lee Shau-kee) has just retired. Thank God. I know too many people who followed his property investment "tips." Here's my tip: Never take gambling advice from a man who can LITERALLY lose HK$100 million without noticing.

Q: Why is the Hong Kong property market so irrational?

A: It's all due to a dangerous virus circulating in Hong Kong, called Generally Reductive Economically Enervating Dementia, or GREED. If left untreated, it almost inevitably leads to full-blown economic deficiency syndrome, and can lead to the complete voluntary removal of one's own cash, also known as a "cashectomy."

Q: Is it infectious?

A: The Hong Kong Monetary Authority has numerous documented cases of human-to-human transmission. Certain sufferers have been designated "super-spreaders" by the medical community. They stand in clusters on the street holding brochures for new real estate developments.

Q: I see them in the shopping malls.

A: Avoid bodily contact. Whip out a hazmat suit if they approach. But you may already have the disease.

Q: What are the symptoms?

A: The first symptom is usually a gradual decrease in walking speed as the individual walks past the shop windows of property agents. Scientists believe that merely viewing the digits on real estate advertisements can cause the disease to start incubating itself. We advise the spouses of potential victims to use cattle prods to stop family members approaching property shops.

Q: Aiyaah! Too late for me. I often stop at those windows.

A: This is followed – often within less than a month – by a desire to read the property pages of newspapers or surf internet property listings.

Q: Is there any cure?

A: Yes. You actually buy an apartment and the investment irrationality quickly disappears.

Q: How come?

A: You don't have enough money left to spend on anything else. And you can no longer afford my professional advice.

Goodbye.

**Nury Vittachi** is a bestselling author, columnist, lecturer and TV host. He wrote three storybooks for the Institute, *May Moon and the Secrets of the CPAs*, *May Moon Rescues the World Economy* and *May Moon's Book of Choices*


# ACCOUNTING AND BEYOND

## QUALIFICATION PROGRAMME 20th ANNIVERSARY LOGO DESIGN COMPETITION

The Hong Kong Institute of Certified Public Accountants' Qualification Programme will proudly celebrate its 20th anniversary in September 2019. To commemorate this important milestone, we are in search of inspiring designs for our 20th anniversary logo.

**ENQUIRY**

Email: **QP20@hkicpa.org.hk**

**SUBMISSION DEADLINE**

**26 August 2019**

### WHO CAN JOIN?

The competition comprises three categories:

- **Open** – for professional practitioners in the design industry and the general public.
- **Tertiary** – for students from tertiary education institutions or professional design schools/institutions.
- **Secondary** – for students currently studying at secondary schools.

* The Institute's staff and members of the judging panel are NOT eligible to join the Competition.

### SUBMISSION REQUIREMENTS

- The theme of the anniversary celebration is "**Accounting and beyond**". The composition elements of the anniversary logo have to include the words "**QP**" and "**20**".
- Entries must be presented in A4 (210mm x 297mm) document size, in vector PDF format with 300 dpi output resolution. Both colour and black/white versions must be included on the same page.
- Include a brief description (no more than 300 words, either in Chinese or English) illustrating the design concept.
- Each person may submit more than one entry.

### SELECTION CRITERIA

Originality ▪ Aesthetic quality ▪ Creativity ▪ Scalability ▪ Reproducibility

### AWARDS AND PRIZES

**Winners** (3 winners, one each from Open, Tertiary and Secondary categories):
**Cash prize of HK$5,000 with a certificate**

**Finalists** (30 winners, ten each from Open, Tertiary and Secondary categories):
**Cash prize of HK$1,000 with a certificate**

CPA
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Certified Public Accountants
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QP
Hong Kong's
CPA Qualification
香港會計師專業資格

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