

Driving business success

Issue 5 / Volume 15 / May 2019

Plus:

Hong Kong's start-ups

How to navigate through the start-up phase

Profile

Lenovo's EVP and CFO
Wong Wai Ming

Success

Merlin Entertainments' Finance
Director - Asia, Gloria Yuen



DOING BIG THINGS

Institute members share
the ups and downs of
running small- and
medium-sized firms



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

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Prepare to take off

Fly high with the
**Financial
Controllership
Programme**

Starting June

The Financial Controllership Programme develops future business leaders

A 16-day tailor-made, practical programme designed by the Hong Kong Institute of CPAs to help aspiring and existing financial controllers acquire core technical knowledge and develop the competencies needed to become a finance leader and add value to your company.

Expert course directors and facilitators will teach you using real world examples: management competency development, accounting for performance and decision making, strategic finance, risk management and corporate governance, and business ethics.

“
The FCP was a valuable opportunity for me to learn from the experts and all the speakers.”

“
The FCP is the one and only choice for you to develop financial controllership in a short time.”

“
I would say it's one of the most valuable courses I have ever attended in my life.”

The programme runs from June to December. More details are available on the website.



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www.hkicpa.org.hk/fcp

“I spoke to the new members of the opportunities ahead of them as new Accountants Plus, the importance of continuing to learn – their personal dedication to their careers – and how the Institute can help them in their goals.”



Dear members,

Accountants Plus was the theme of my month, celebrating three key skills – motivation, dedication and preparation. These skills help us to be successful in our professional – as well as personal – lives.

Early in the month I attended the graduation celebration for the 2018 class of the Financial Controllership Programme (FCP). The programme is perfect for motivated aspiring and new financial controllers, and it was exciting to hear from the graduates about how it had helped them become Accountants Plus, ready for their roles leading their business' finance teams.

In this age of Accounting Plus, we must be motivated and ensure that our skills are continuously improved and sharpened, and the FCP can help accountants in business achieve this. The FCP's experienced course directors and facilitators share their knowledge and experiences with programme participants, training them in the skills needed to be a successful financial controller in the age of Accounting Plus. The 2019 class FCP begins next month – hurry and you can enrol in the full programme by 5 June.

Welcoming new members to our Institute is a great privilege for the

Council. This month the Institute held its annual New Members Cocktail which welcomed some of the over 1,600 dedicated new members who joined the Institute during the past year. I spoke to the new members of the opportunities ahead of them as new Accountants Plus, the importance of continuing to learn – their personal dedication to their careers – and how the Institute can help them in their goals. Speaking to the attendees, the energy and enthusiasm on display in our profession's newest members was inspiring. They demonstrate how the profession will continue to achieve success in the future and I wish them all the best of luck.

Promoting the profession to society is an important task for the leadership of the Institute. This month I took part in a media lunch alongside Vice-President Nelson Lam and Acting Registrar Jonathan Ng with many Hong Kong-based media. The media asked about the preparations of the new Qualification Programme, which will be introduced this year, and how the new topics such as use of new technologies and training in the soft skills accountants need will prepare future generations of Accountants Plus. I spoke about

developments in Hong Kong, such as how the Greater Bay Area represents new opportunities for our profession, and the Institute would explore how it could help our members to prepare for them. I also highlighted the importance of work-life balance and how the Institute helps organize members' social and sports events.

I celebrated the success of some sporty Accountants Plus who both achieve a good work-life balance and who had achieved success in the Standard Chartered Hong Kong Marathon 2019. We spent the evening celebrating their outstanding results. I would like to single out the success of Pan Po Shing in particular for setting a new Institute record for the men's full marathon of 2:48:22 – a record for future “Accountants Plus Marathoners” to target. We also achieved success in the Corporate Challenge, winning the 10 km, half and full marathon categories, and I look forward to attending the prize ceremony for these awards in June.

All our runners displayed motivation, dedication and preparation to achieve their results. Three key skills needed for success in our personal – as well as professional – lives.

Patrick Law
President



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Getting it right from the start-up

High rents, but high opportunities. Hong Kong entrepreneurs share how they overcome start-up challenges in the city

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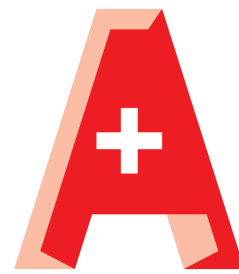
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Driving business success

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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AFTER HOURS

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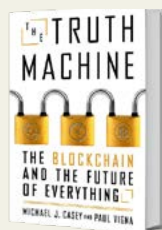
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Book review

M&L

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News

Institute news Accounting news

Institute news

Financial Controllership Programme 2019: Calling future finance leaders

The Institute's Financial Controllership Programme is accepting enrolments with the deadline of 5 June. The six-month part-time programme is taught by professional accountants in business and other experienced facilitators and aims to help participants develop competencies expected of a skilled finance leader today and add value to their business.

It is specially-designed for aspiring and recently appointed financial controllers, existing financial controllers who wish to refresh their skills, and members preparing to make the switch from practice to business. The programme runs over 16 Saturdays between June and December and covers five topics relevant to the work of a financial controller: management competency development; accounting for performance and decision making; strategic finance; risk management and corporate governance; and business ethics. The programme is open to all members with at least five years post-CPA qualification work experience. Interested members can find out more on the Institute's website.

Supervision and Evaluation Bureau visit the Institute

On 22 May, Vice-President Johnson Kong hosted a delegation of six officials from the Ministry of Finance's Supervision and Evaluation Bureau led by Director General Guo Jin Xing. The Institute introduced the latest on audit

reform in Hong Kong, followed by discussions on cooperation in cross-border audit cases.

New Members Cocktail

More than 160 members attended the cocktail reception on 18 May to celebrate their CPA designation. They were welcomed by Institute President Patrick Law, Council members, the Acting Registrar Jonathan Ng, members of senior management, and representatives from the Young Members Committee and various sports and recreation interest groups.

Accountant's Update Pathway 2019 (International) programme

Subscribe the 20-hour Accountant's Update Pathway 2019 (International) programme at an early bird discounted price of HK\$2,475 before 11 June. This programme will keep you up to date with

global trends in financial reporting, tax harmonization across the G20, audit, regulation and technology, and includes dedicated content for Hong Kong. More information is available on the Institute's website.

New e-course pathways

Three pathways on data analytics, leadership and management, and business performance management have been added to the Institute's e-course catalogue of accounting CPD. Each pathway is a 20-hour programme with 20 sessions and learners can read the material at their own pace within six months. Find out more on the Institute's website.

Council minutes

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



Welcoming new members at the New Members Cocktail

Disciplinary findings

Ng Chi Ching, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Behaviour in sections 100.5(e) and 150.1 of the Code of

Ethics for Professional Accountants.

Ng was the financial controller, company secretary and compliance officer of Yorkey Optical International (Cayman) Limited, a company listed in Hong Kong. In those positions, Ng had a statutory obligation to ensure that the company complied with the relevant disclosure requirements under the Securities and Futures Ordinance

(Cap. 571) (SFO).

In August 2012, the company announced its interim results and stated that it expected significant growth and increasing profitability in the second half of the year. However, the company's full year results announcement in March 2013 revealed that performance had in fact deteriorated significantly. The company had therefore breached the relevant disclosure requirements by not issuing any profit warning announcement in the intervening period. The Market Misconduct Tribunal started proceedings in 2016 in relation to the breach.

The tribunal noted that Ng did not obtain the company's monthly management accounts, and as a result, he was not alerted to the deteriorating performance during the second half of the year. Ng only became aware of the deteriorated results one month before the company's annual results announcement, and even then he failed to ensure that the company issue a profit warning announcement.

In 2017, the tribunal found that Ng was reckless in failing to ensure the company's timely disclosure, and that he failed to put in place a system to enable the timely identification and disclosure of price sensitive information. The tribunal found Ng had breached sections 307G(2)(a) and 307G(2)(b) of the SFO and issued sanctions against him. They also recommended referring the findings to the Institute.

Decisions and reasons: The Disciplinary Committee ordered that the name of Ng be removed from the register of CPAs for one year with effect from 13 May 2019. In addition, Ng was ordered to pay HK\$32,496 towards the costs of the disciplinary proceedings. When making its decision, the committee noted that Ng's conduct was grossly insufficient and highly undesirable. He had wholly ignored and disregarded his duties and responsibilities. The committee further noted he was appointed in the positions of the company because of his professional background as an accountant. His conduct amounted to a serious breach of statutory duties and the trust and confidence placed upon him by the public and shareholders.

Wong Suet Fan, CPA

Complaint: Guilty of professional misconduct and dishonourable conduct.

Wong was selected by the Institute for practice review in early 2016, when she was holding a practising certificate and practising as a sole proprietor. The Institute's practice reviewers attempted to contact Wong through her registered contact addresses to arrange the review, but they were unable to obtain her response. However, Wong was able to receive the Institute's documents for registration renewal which were sent to those same addresses, and successfully renewed her membership and practising certificate for 2017.

In May 2017, the Practice Review Committee of the Institute issued a direction to Wong requiring her to provide certain information for the practice review and cooperate

with the Institute to facilitate a practice review. Wong failed to comply with the direction and did not respond to the Institute's communications concerning the matter.

Decisions and reasons: The Disciplinary Committee ordered that the name of Wong be removed from the register of CPAs for one year with effect from 29 April 2019. In addition, Wong was ordered to pay HK\$34,447 in costs of the disciplinary proceedings. The committee found Wong's disregard of the Institute's communications, and failure to provide a proper office address, prevented the Institute from carrying out its statutory duty to conduct a review of her practice. The committee further found Wong's failure to maintain a proper office address was a breach of section 31 of the *Professional Accountants Ordinance* and would amount to a criminal offence.

Yin Yingneng, Richard, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principles of (i) Integrity under sections 100.5(a) and 110.2 of the Code of Ethics for Professional Accountants and (ii) Professional Behaviour under sections 100.5(e) and 150.1 of the code. Yin was also found guilty of professional misconduct.

Yin was appointed as the Chairman of First China Financial Network Holdings Ltd. (First China), a Hong Kong-listed company, in 2005 and was subsequently redesignated as a non-executive director. He resigned in December 2008.

In 2012, the Securities and Futures Commission filed a court action against Yin and others for their breach of director's duties to First China. The breach concerned falsely putting forward a non-existent agreement between the company and a third party for the distribution of dividends in connection with an acquisition undertaken by the company. This caused First China to wrongly pay a dividend of RMB18,692,000 to the third party. The court found Yin breached his duties as a director under the GEM Listing Rules and common law, and ordered him to be disqualified from being a director or involved in the management of any listed or unlisted corporation in Hong Kong for four years.

Decisions and reasons: The Disciplinary Committee ordered that the name of Yin be removed from the register of CPAs for two years with effect from 24 May 2019. In addition, Yin was ordered to pay costs of the disciplinary proceedings of HK\$37,000. When making its decision, the committee took into consideration that the breach of trust by a fiduciary is a very serious matter and the amount involved was material. The committee also considered mitigating factors which included the court's acceptance that Yin was the least culpable party in view of his attempts to resist the instigator's pressure and to find a way to return the windfall.

Details of the disciplinary findings are available at the Institute's website: www.hkicpa.org.hk.

Hang Seng Indexes launches two new ESG indices

Hang Seng Indexes announced on 14 May two new indices to track the environmental, social and corporate governance (ESG) impact of listed companies. The HSI ESG Index and the HSCEI ESG Index have the same list of constituents as the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) respectively, but adopt different constituent weightings. Companies with higher ESG scores will have higher weightings in the new indices. Vincent Kwan Wing-shing, Chief Executive Officer of Hang Seng Indexes Company, said the launch is driven by growing interest from fund managers for ESG investing. “We believe the timing is right to launch the two new ESG indices as they provide bases for product issuers to develop investment products linked to the portfolios of our flagship indices but with a greater emphasis on ESG,” he said. Globally, ESG investment stood at US\$30.683 trillion, 34 percent higher compared with 2016, according to Hang Seng Indexes.

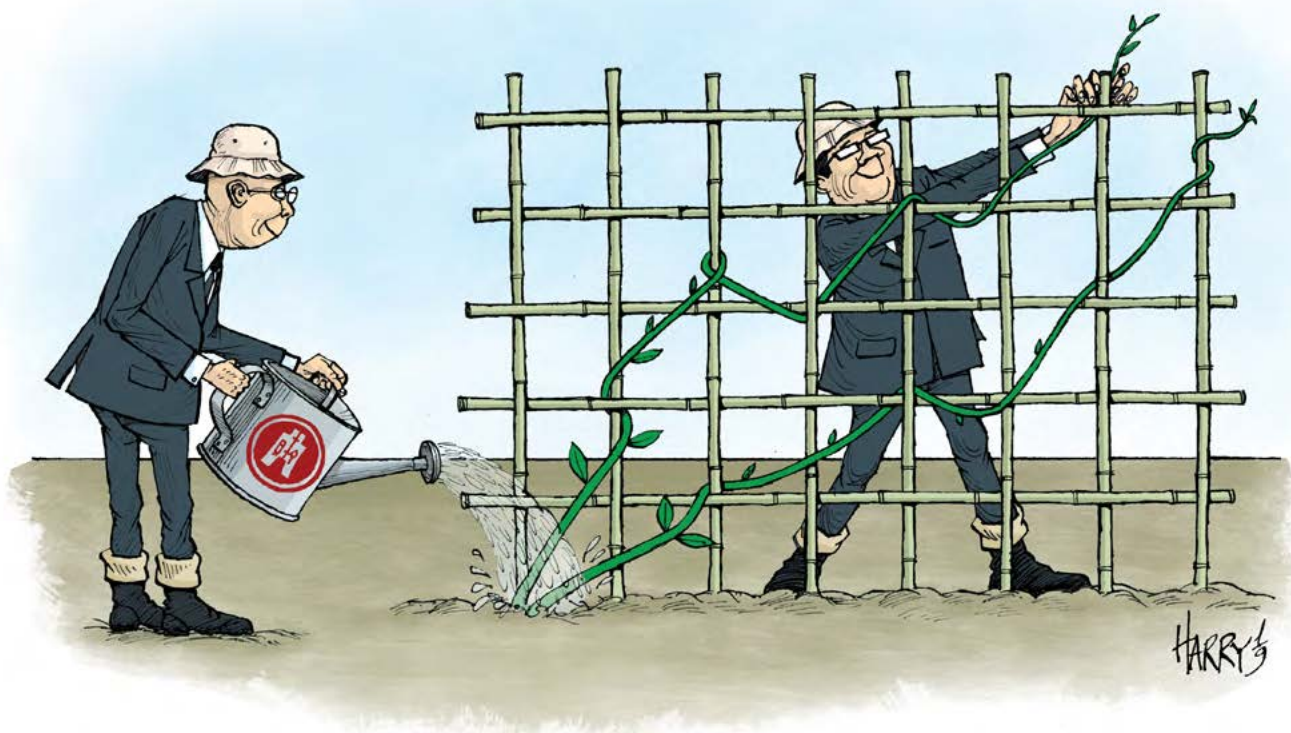


Illustration by Harry Harrison

Malware attack shuts down accounting company

A cyberattack hit tax and accounting software giant Wolters Kluwer earlier this month, leaving many of their customers – mainly small- and medium-sized firms – unable to work. The outage, which took place in the morning of 8 May, affected its vital storage services, and tax and accounting services, barring customers from accessing tax returns or personal information. The company took its system offline following the attack to prevent the malware from further spreading, however the move made it difficult for accountants and IT staff to reach the company for information. The company noted that it found no evidence that customer data or systems were compromised. It restored service to nearly all customer applications and platforms on 16 May, more than a week after the shutdown.



Hong Kong issues four more virtual bank licenses

The Hong Kong Monetary Authority (HKMA) has issued four more virtual banking licenses, in a bid to encourage innovation in the financial services sector. The licenses were issued to applicants with ties to China's biggest technology companies: Ant Financial's Ant SME Services; Xiaomi-backed Insight Fintech HK; Ping An OneConnect Company; and, backed by Tencent, Infinium. The HKMA has now issued eight licenses since March, and aims to help the city keep up with Mainland China, which has operated virtual banks for close to half a decade. "Through FinTech innovation, Infinium will collaborate with the HKMA and industry partners to promote financial inclusion in Hong Kong, allowing more customers to enjoy a brand-new, efficient and secure virtual banking experience anytime and anywhere." Chief Executive of Infinium, Eric Sum, said. The virtual banks will begin offering banking services in six to nine months, and offer deposit and lending services to the general public and small- to medium-sized businesses.



EY in tax partnership with Thomson Reuters

EY will partner with Thomson Reuters to bring together EY's Tax Technology and Transformation services and Reuters' ONESOURCE global tax technology, allowing EY teams to help clients deal with more complex tax issues. The partnership follows EY's acquisition of Thomson Reuters' legal services business Pangea3 earlier this year. Kate Barton, Vice Chair of EY said: "With the rapid rise in platform-based technology in the form of cloud and other secure access platforms, tax departments are beginning to solve problems, source business solutions and interact with tax authorities in a whole different way."

FASB asked to delay accounting rules

The American Institute of Certified Public Accountants (AICPA) has asked the Financial Accounting Standards Board (FASB) to delay the implementation date for new lease accounting rules by one year. In a letter, released 13 May, the AICPA cites the implementation of other accounting standards, which deal with leases and revenue and loan losses, as a reason for the delay. It noted that "many private companies still need to expend significant resources to adopt the new revenue standard." The letter follows an earlier letter submitted by the Associated General Contractors of America on 3 May also asking for the delay, saying "a one-year delay will allow both the preparer of the statements and their auditors more time to accurately implement this standard." A spokesman for the FASB says the board is reviewing both requests.

A world of numbers



80%

The percentage of chief financial officers who do not have a successor for their role, according to the 2019 study by management consulting company Korn Ferry, which surveyed 222 CFOs in companies across the globe. It found that only 38 percent of CFOs had a comprehensive succession plan. John Petzold, Korn Ferry's Senior Client Partner attributed this to organizations "being so busy trying to outpace the competition."

90%

The percentage of accountants who believe the profession is undergoing a major cultural shift as it enters the next decade. Factors such as evolving client demands, technology adoption and diversity within firms are changing the accounting landscape, according to a survey on 3,000 accounting professionals worldwide conducted by Sage.

40%

The percentage of accounting and finance firms facing trouble in prioritizing potential robotic process automation (RPA) initiatives, according to the 2019 RPA Survey by global consulting company Protiviti, which surveyed 450 executives. Factors such as concerns with cybersecurity and regulation remain obstacles to pursuing higher RPA adoption rates. A further 24 percent cite a lack of talent as another challenge.

RELEVANCE PLUS EASE

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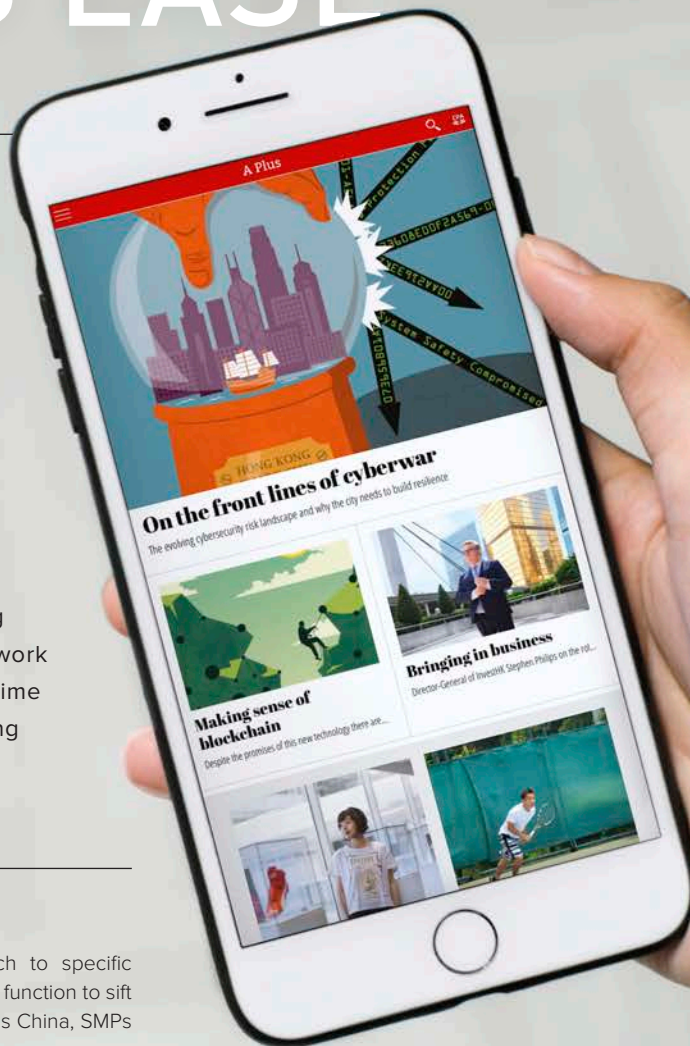
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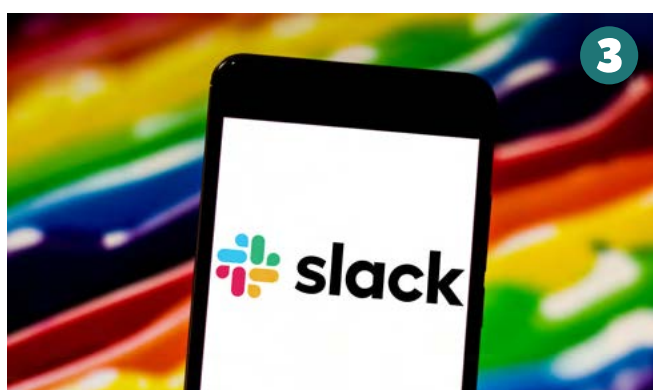
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Driving business success



1 PwC to open university in Sanya

PwC has announced plans to establish a university in Sanya, in a bid to boost innovation and competitiveness within the city. The Big Four firm announced the signing of a strategic cooperation agreement on the project with the municipal government, in China's Hainan Province, on 29 April. The project will also support the development of Hainan Free Trade Zone, which could see the province grant foreign firms greater trade and economic freedom. "The PwC University project reinforces our corporate social responsibility, and maximizes our values by contributing to national development," says Raymund Chao, PwC Asia Pacific and Greater China Chairman.

3 Slack technologies works towards June listing

Workplace messaging app owner Slack Technologies announced plans to go public on 20 June. The company, which currently has a valuation upwards of US\$15 billion, will be listed on the New York Stock Exchange under the ticker symbol "WORK" and expects to raise US\$197 million. Instead of an initial public offering, it will go public via a direct listing, making it easier for existing shareholders to sell stock. It has since registered nearly 17 million shares of stock since 20 May. Slack, which is used by over 600,000 organizations with three or more employees, is one the most high-profile companies to go public this year, following Pinterest, Beyond Meat, Lyft and Uber Technologies. It plans to report first-quarter results on 10 June.

2 KPMG fined for bank audit

KPMG in the United Kingdom has been fined £4.5 million and reprimanded after admitting its own misconduct in its 2009 audit of Co-operative Bank. The U.K. Financial Reporting Council (FRC) said the failure came to light following the merger between the bank and building society Britannia, which led to the discovery of £1.5 billion missing in the bank's accounts. The FRC added that KPMG had failed to inform Co-operative Bank about the risky loans it had acquired through the merger and failed "to obtain sufficient appropriate audit evidence." KPMG said: "We regret that some of our audit work around specific elements of the bank's fair value adjustments did not meet the appropriate standards."

4 Mazars to probe former Nissan chairman

Mazars has been hired to investigate former Nissan chairman and Renault Chief Executive Officer Carlos Ghosn, who has been imprisoned since last November following charges of falsifying financial statements. Auditors will look into whether the high expenses claimed by the embroiled ex-chairman were for personal use. These include personal trips made by Ghosn and his family over a three-year period worth €4.8 million, an expense of over €12 million on high-end clothing and entertainment, and a €545,000 banquet at the Palace of Versailles. Ghosn, who denies all charges, claims he is the victim of a "conspiracy" by former colleagues at Nissan. Ghosn's defense lawyer, Takashi Takano, says he is expected to go on trial in 2020.

Small and medium practices

SMP challenges



Wilson Ng
(centre, in
blue shirt)
with his team

MEET THE SMPs

With Micro-, World Small and Medium-sized Enterprises Day on 27 June, Institute members tell [Liana Cafolla](#) what it's like to play a big role in a small- and medium-sized firm

Photography by Leslie Montgomery

“Becoming an entrepreneur and setting up my own practice required a big mindset change,” says Wilson Ng, Co-founder of FastLane CPA and a member of the Hong Kong Institute of CPAs. “If you worked for a large corporation, you only focused on your own responsibilities,” he says. “Now we have a lot more things to manage and execute both operationally and strategically. We have to make the decisions for all functions of our business.”

Ng set up his firm in 2013 with his business partner Alex So, a university coursemate. Both had started their career with large international accounting firms before moving into investment banks. But after the financial crisis, regulation was tougher and business sentiment was negative in the banking sector. The two were not convinced that the industry could easily revive, and decided it was time to make a change, recalls Ng. “We started working on different ideas, and decided to leverage our profession.”

FastLane Group was born and then slowly expanded into providing a range of professional services from online accounting services, auditing and taxation, and to payroll administration and venture capital investment. Ng is Managing Partner of the firm’s accounting and auditing practice, and So leads other divisions.

The group now has over 20 employees, including the two

founding partners and a new partner – but when they started there were just three. “The increasing workload and new clients made it challenging, especially when there were staff turnovers.”

Retaining the right people is hard for small- and medium-sized enterprises, with many new employees opting to move on to bigger companies after a couple of years. But as Ng notes, the firm offers a clear vision and shared values to attract and retain talent.

“The increasing workload and new clients made it challenging, especially when there were staff turnovers.”

“As an employer, we are certainly a less popular choice for those who are looking for big names and flashy offices, but our approach to strive for a real purpose of work helps,” Ng says. “We’re more flexible and agile compared to some of the traditional or bigger firms. Our colleagues are looking for more efficient ways to perform their duties and better appreciation of work. So when we utilize technology that provides flexibility and improved capabilities, we get their appreciation and support.”

Flexible working hours has been a big advantage for Ng, too.

“When I started my business, my kids were still relatively young, so I could manage my time – I would occasionally be a parent helper at school, and when they went to bed, I worked,” he recalls. “So I didn’t miss out on some of the time with my kids growing up. It’s a good balance of life.”

“Many of the firm’s clients are operating globally, located outside Hong Kong, and in different time zones. They’re travelling all over the world and need instant responses and advice. This is why we can’t just stick to a paper-based approach and emails. Technology is helping a lot,” Ng says, advising CPAs considering setting up their own firm to use technology to help them work more efficiently. FastLane uses Xero online accounting software and has been a Xero partner since its incorporation. “We rely heavily on technology such as Xero, Skype, Zoom, Google Business Suite and Dropbox to maintain close communications and interaction with our clients. Ten years ago you couldn’t,” he says.

Being small and working with other small companies is incredibly satisfying, Ng notes. In big firms, “you’re just one of 100,000 staff – you can’t feel how much you contribute to the whole company. But working with start-ups, you can see them grow and become successful. That kind of satisfaction is greater than working for a big corporate.”

The firm’s hard work is now paying off. “We just finished our



A total of HK\$13.3 billion worth of invoices were paid late to small businesses in Hong Kong in 2018, according to the global small business platform, Xero. Xero’s data also found that last year only slightly more than half of total payments to Hong Kong small businesses were made on time.

Small and medium practices

SMP challenges



Helen Tang
(centre) with
her team

office expansion and are now looking to launch our services in other markets,” Ng says. “We’re getting more people on board, trying to expand and build our brand.”

He believes it’s essential for entrepreneurial-minded CPAs to build networks with other CPA firms. “As a smaller firm, you don’t have the resources of the big firms – like a technical team to look up all the changes in standards and regulations – so you have to leverage your network and external resources for such matters.”

Quality growth

For Helen Tang, Managing Director at Moore Stephens CPA and an Institute member, life in a small- and medium-sized firm is just fine – so much so that she has stayed with the same firm for 25 years.

Born and bred in Hong Kong, she moved to the United Kingdom for school and obtained a bachelor degree in accounting there.

“I trained there with a medium-sized accounting firm,” she says. “I qualified and then I came back to

“Reputation is very important. Quality is very close to my heart.”

Hong Kong. Moore Stephens was my first job here.”

She worked her way up and became managing director, witnessing the firm’s growth along the way, and built the business by bringing in new partners who brought their own clients with them.

“When I joined, there were three partners – all men,” she recalls.

“There were only 50 of us in total. Then we gradually grew a bit – not a lot, obviously. Until four years ago, we were 120 people. I took over as managing director of the practice in 2016. I had some new partners joining, they brought in business and today we have over 300 people.”

The firm now has 20 partners and has achieved an enviable gender balance. “Half male and half female,” says Tang. “I’m very pleased. That wasn’t really intentional, it just evolved.”

“We also promote diversity at our firm, we have a mixture of nationals from Mainland China, Europe and India working for us,” she adds. Tang has sought to build the firm’s reputation and business by giving as much value to clients as possible within the permitted boundaries.

“I always tell my people, audit is just a cost to clients. What you need to do is get more out of your auditing. You have to give some kind of value back. So when you see something that is not quite right during your auditing, by providing good advice you can add value to their business. But obviously, we have to be careful – being auditors, you can’t advise so much. You have to draw a line.”

The firm’s current size brings advantages, she says. “Being in a smaller firm, you can go out and get experience in a very broad landscape because you’re involved in the whole thing. In a big firm, for example, you’d probably be doing one section of the audit all the time.”

Decision making is also easier in a smaller firm, she says. “We’re



Matthew Li
(centre) with
his colleagues

more flexible. So in terms of our own internal policy, we don't have to say, 'oh no, the policy's there in black and white, we can't change it.' We can always discuss, reflect, and change and get something better – a better decision, better policy.”

One of the firm's toughest challenges is attracting and keeping talent. “That's the difficulty facing not only by us but around the profession,” Tang says. “But Big Four firms will always have the first hand advantage of recruiting from the mainstream universities.”

At Moore Stephens, the response has been to offer new hires additional training as well as some innovative team-building activities including cake-making classes, coffee workshops, leather workshops and regular shoulder massages. “We pride ourselves on giving a lot of training to our staff, not only training by the technical training department,” Tang explains. “On-the-job training by our managers is very important. Teamwork is very important. We do team-building activities every single year. I really like this quote –

‘Talent wins games, but teamwork wins championships.’”

Embracing technology is a no-brainer for firms of all sizes, no matter where in the world they are located, she says. Moore Stephens has set up an initiative group to examine software that could increase the firm's efficiency.

“In auditing, there's some ground work which is really quite tedious – ‘ticking and bashing,’ we call it,” she says. “We're looking into how we can get that bulk of work done by technology.”

Regulatory oversight is another common area. “All of the CPA firms, big or small, are subject to very close scrutiny from the regulators,” notes Tang, who is Deputy Chairman of the Institute's Professional Conduct Committee, and member of the Small and Medium Practices Committee. She says the firm's biggest challenge is ensuring its work stands up to the highest standards of scrutiny, adding that Moore Stephens has a blemish-free slate with regulators. “We have to make sure all the work, especially work for public interest

entities [listed companies], has been properly and fully reviewed and there are no holes. Reputation is very important. Quality is very close to my heart. We want to grow, but we want a quality growth.”

Moving to the unknown

Matthew Li co-founded corporate structuring and advisory services firm Nova CPA Limited in 2013. The firm offers services relating to corporate governance, business and taxation advisory, investment immigration, mergers and acquisitions, IPOs and other business support. The firm has grown from three staff to more than 30.

Like others, Li, an Institute member, found rents to be the biggest problem and relied on family help to raise some capital. After leaving his job as a senior accounting partner at smaller firms including CLHL CPA Limited to set up Nova, another headache was enticing other professionals to leave their secure jobs for the unknown. Li says they were lucky in convincing some friends to take a

Small and medium practices

SMP challenges



Brian Lai
(centre) with
his colleagues

pay cut and join them.

To build the business and attract clients, the firm relied on Google ads and offering an expanded range of related services. Li spent time talking to as many entrepreneurs as he could find, to learn about their businesses and challenges, as well as gathering information from their shareholders. “When you start your business, you do not have a strategy,” says Li. “You only have one or two clients.”

In an effort to make Nova stand out from the crowd, the firm switched to cloud-based accounting. “We adopted the cloud-based accounting system a couple of years back and ultimately this has provided great momentum for our transformation, bringing an innovative impact to businesses in Hong Kong as well as for our fellow business service providers,” says Li. He says his firm was one of the first to adopt the technology in Hong Kong.

Further change came from the realization that offering cloud-based accounting services was not

“Both as business owners and as accountants, we got to enjoy the maximum benefit from integration between different apps.”

the end of the road – the technology offered more opportunities. “The more we implemented accounting systems for businesses to cover the financial requirements, the more we realized that fulfilling business’ operation requirements are as important as financial ones,” says Li.

To drive their clients’ business efficiency, the firm saw the potential for building a cloud-technology eco-system which would allow data to flow smoothly and automatically from operations to accounting, removing the need for businesses to enter the same

data in different places. “Hence we started to provide various cloud solutions, such as restaurant point-of-sale (POS), inventory management systems, HR solutions, etc.,” explains Li.

Building success for clients has helped to build the firm’s reputation. One of Nova’s most successful digital transformation cases to date has been working with a chain of artisan coffee shops with more than 12 branches around the region, including revamping the company’s front-end POS system, membership card, and back-end accounting and reporting system.

“Both as business owners and as accountants, we got to enjoy the maximum benefit from integration between different apps,” says Li. “We are very pleased that our clients see our value and strength in accounting and cloud business tools, and that has expanded our coverage in Hong Kong beyond traditional CPA business.”

He believes new small firms should prioritize financing to ensure they can pay the wages. “You

should build a relationship with the bank,” he advises.

They should also embrace IT technology to enable them to deal effectively with bottlenecks, especially in auditing and accounting, and to scale up the business. “Do more reading, especially when you’re feeling confused or lost,” he counsels. “You’ll find related experiences that can motivate you.”

The right mindset and good behaviour towards others are both very important, he says. “Always be positive and be the biggest fan of yourself. Business is a result of your behaviour and what you have done. It’ll come across just like a mirror.”

Continuous learning

Brian Lai was teaching his usual accounting, economic and finance in a secondary school one day when a student asked a question that changed the course of his life.

“Sir, have you ever started your own business?” My answer was no. The whole class was disappointed. How can a business teacher have no business experience? That made me think about my career path. Then I quit my job.”

Lai decided to set up his own firm. He joined a local firm, studied for the Institute’s Qualification Programme (QP) exam and four years later, at the age of 30, he qualified as a CPA. The following year, he took the plunge and set up his business and is now Managing Director of Link-Pro CPA.

Despite a supportive wife and a six month cash buffer from savings, it was a difficult time. His first child had just been born and he had no staff.

“It was a huge headache in the beginning because I was a one-man band,” he recalls. “I rented a small table in a co-working space in Sheung Wan and I started doing my marketing, deciding what kind of service I could provide, how to hire my staff, how I would train my staff and build my team.”

He leaned on his QP training and his four years’ of audit experience. “It equipped me with the problem-

solving skills that enabled me to tackle all the early difficulties.”

Link-Pro now has eight people, including Lai, and offers business advisory, assurance and taxation service. Lai’s strategy to attract clients is twofold: offering as broad a range of services as possible – business advisory, assurance, taxation and audit – and using technology to make the business stand out from its competitors.

“We focus on cloud technology and cloud-based accounting,” explains Lai. This, he says, makes the company stand out in the digital era. The firm spend time training clients. “We advise clients how to do their book-keeping on the cloud. We train them how to do the input, and we provide advisory service to them. Clients can put all the data on the cloud and we have access to it. It provides a collaborative platform for us to work on.”

“You have the freedom to build an organization based on your own philosophy and your own core values.”

The approach is popular with clients, particularly expat clients who are already familiar with the technology and those with operations outside Hong Kong. “In this fast-paced [environment], you have to get the most updated information to make decisions. We tell them to subscribe, and then you can see the latest transactions on the platform and make instant decisions.”

The switch to cloud-based accounting was not a planned move. In early 2016, he and his team spent three months on a project for clients. They lost the data on a standalone PC and had no back-up. “We had promised to provide the financial statement to our client the next week,” he recalls. “We didn’t sleep. It took about one month to finish it.

It was a nightmare.”

After that experience, he looked for a better solution and found Xero. “You learn from failure. It will make you even stronger than before,” he says. His first clients were a few friends. Slowly, he gained more mostly through word of mouth recommendations. “Now we have about 100 clients. It takes time to accumulate. You have to assure them that you are able to provide the value added, quality service to them. This is our first priority.”

He actively looks for clients in places such as Science Park and Cyberport where many small companies have their headquarters. They are young and familiar with technology, he says. “It’s very easy for us to approach them, as a tech-driven CPA company with everything on the cloud. They like the idea.”

Another challenge was a client who Lai found to be doing something unlawful. “I told them I would issue a qualified opinion. They said you cannot, because you receive our money. You act as my agent, you act as my service provider. They went to the Institute to raise a complaint against me.”

After a six-month investigation, Lai was exonerated. It was a tough time, he says. “I lost the client, but I kept my integrity. I learnt a lesson. Before I start working with a new client, I say very clearly, ‘As a CPA, we are independent. I work as a CPA. I don’t work for anyone.’”

For Lai, the benefits of starting a business are autonomy and the opportunity to teach others his philosophy. “You have the freedom to build an organization based on your own philosophy and your own core values. You can teach knowledge, experience, global perspective, values.”

There is another goal on the horizon: getting back to that classroom. “Now I’m studying for the MBA programme at the University of Hong Kong,” he says. “I want to scale up my business. Someday, I will go back to teaching again to share my experience.”



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Lydia Leung, Senior Valuation Specialist of IHS Markit, on the accuracy of start-up valuations based on recent trends



The true value of start-ups in Asia

People often say valuation is more an “art” than a science. Are start-ups’ true valuations in line with media quotations, or what owners believe to be their value? It’s high time to increase scrutiny on valuations and utilize a robust methodology to make valuations more accurate and consistent.

Unicorns exist in both the fantasies of children and in the business world of grown-ups. Hong Kong-based travel start-up Klook announced in April that it raised US\$225 million round led by the Softbank Vision Fund, the world’s largest technology investment fund, with participation from existing investors. The Hong Kong media then widely reported that Klook’s valuation reached US\$1 billion. Is Klook’s “true value” in line with this value quoted?

Why private company valuations matter

Companies usually release information on the price paid and the percentage of the company that investors purchased after closing a fundraising round. The media then calculate the value of the company, known as the post-money valuation, by multiplying the last round price with the total number of shares issued. In fact, the media often ignore the complexity inherent in calculating an accurate valuation, as the stocks issued by start-ups often have different rights and seniority. According to recent research in the United States, these values were on average, 50 percent higher than fair value of the 135 unicorns studied.

In view of the high risks and illiquidity associated with start-ups, venture capital (VC) and private equity investors typically seek downside protection and certain controls over the portfolio companies’ activities. Hence, they may receive preferred stock conveying various rights and enhanced seniority on liquidation. As a result, VC-backed and private equity-backed start-ups often have complex capital structures with various classes of stock with different rights, dividends, participations and conversion ratios.

Issues with post-money valuation

In reality, the majority of VC-backed start-ups fail and are eventually liquidated. Post-money valuation only holds true if the company can go public at that price, or if someone is willing to buy the entire company at that valuation. Venture capitalists who quote the post-money valuation usually assume their investment will go public soon, and that the shares will convert to common stock. This is often a clause in the Memorandum and Articles of Association, which details the terms of securities, rights and preferences of shareholders of different classes.

Post-money valuation disregards the rights and preferences of preferred stocks and sometimes oversimplifies the valuation, which results in a misstatement. While many finance professionals are aware that post-money valuations do not truly reflect the value of the company, it is not uncommon to report post-money valuation as fair value. A survey conducted in a valuation event by IHS Markit in Singapore recently revealed that 75 percent of participants use post-money valuation to value their portfolio companies.

Using post-money valuation is appropriate when market participants expect the preferred stocks to convert to common stock, which may be the case when an initial public offering (IPO) is imminent or when latter rounds have additional preference but early rounds investors have control on the timing to exit. If the IPO plan is remote or uncertain, a full scenario analysis or a “backsolve” can be used to value the company.

A backsolve is a valuation approach based on an option pricing model. When using a backsolve, the enterprise value is solved as a variable in an option pricing model with the latest transaction price.

Challenges of start-up valuations

Due to the disruptive nature of start-ups, truly comparable guideline public companies, at a similar stage of development with similar growth and risk expectations, do not usually exist. With little revenue and often

no profit, it is sometimes impossible to come up with a reasonable valuation using comparable companies.

The revised Fund Manager Code of Conduct and the implementation of HKFRS 9 *Financial Instruments* last year called for more scrutiny on the fair value of private companies’ valuation. Despite an improved awareness of the need for a higher level of quality in valuations over the past years, there is still a gap between the actual market valuations, and the auditor’s expectation.

The issues are two-fold. Some VC funds do not have the expertise, or indeed the resources to value their own investment. To make matters worse, start-ups cannot usually produce reliable operational metrics or financial forecasts. Chief financial officers in venture capital in Hong Kong not only face pressure in meeting accounting standards, but also when it comes to managing volatility in valuations.

The road ahead

HKFRS 9 or IFRS 9 do not provide detailed requirements of the valuation methodology for private companies. Finance professionals may refer to other resources such as the *International Private Equity and Venture Capital Valuation Guidelines*, or the *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies* by the American Institute of CPAs for best practice.

Valuation is indeed more of an art than a science. Finance professionals in Hong Kong need to make this art more accurate and consistent to enable stakeholders to make better asset allocation decisions and to make meaningful comparisons. The finance team in VC funds may not be large enough to allow for a segregation of duties. As the guardian of the financial statements, the CFO should challenge the investment team regarding their valuation and the methodology they use to create it. Understanding the rights and preferences of the securities of their investments and the different valuation methodologies available would be the first step to more effective control.

Leadership profile

Wong Wai Ming

KEYS TO THE WORLD

Wong Wai Ming has helped to oversee Lenovo's transformation from a local Chinese company to the largest computer supplier in the world. The Executive Vice President and Chief Financial Officer tells Nicky Burrige how he is leading the company through changes brought by the new economy, and how his accounting background still plays a pivotal role

Photography by Calvin Sit

It is hard to imagine the decision to go global was ever a difficult one for a company that today has a presence in more than 60 countries and sells its products in 160 different markets.

But Wong Wai Ming, Executive Vice President and Chief Financial Officer at Lenovo and a member of the Hong Kong Institute of CPAs, remembers that the company's decision to expand its reach through the acquisition of IBM's personal computer (PC) business in 2005 was highly controversial at the time.

"Being in China and Asia Pacific was very profitable and people questioned why we were going global, especially as China's economy was growing by high-single digits every year," says Wong. "But the board and shareholders took the view that if we wanted to grow the company over a much longer period, we needed to think about the global market, and not just stay in one country or one region."

While the decision to expand internationally has clearly paid off, with Lenovo currently the largest computer supplier in the world, Wong concedes that the global nature of its business does create challenges. "We have US\$51 billion in revenue, which is spread pretty evenly between China, Asia Pacific, Europe, the Middle East and America. This means the clock is on 24 hours a day. You can never say, 'it is evening now,' and take a rest.





Something could happen at any time, in any part of the world.”

He adds that the challenges the business faces and the nature of his own work are also ever-changing. “I think it is literally different every day. That can be tiring sometimes, but it is rewarding when you overcome these challenges, see the result and generate value for shareholders,” he says.

A transforming business

Lenovo was founded in Beijing in 1984 and listed on the Hong Kong Stock Exchange in 1994. Wong joined the company in 1999 as an independent non-executive director, before becoming group CFO in 2007. His role involves running the overall financial operations of the group, including the financial control, financial reporting and treasury functions.

During his time at the company, he has helped to oversee significant change at the business, including Lenovo’s transformation from being a local Chinese company to what he describes as “a truly global firm.”

He was also involved in Lenovo’s decision to diversify its product range away from only PCs to include mobile phone handsets, data storage solutions and servers. This process began in 2014, when Lenovo acquired IBM’s x86 server business, followed in the same year by the purchase of mobile phone handset maker Motorola. “Although we still believed that PCs were a growing business, we were aware that the world was changing and if we were going to expand our activities, we needed to have more than one product line,” Wong explains.

The initial transition was not easy. “We went through a number of challenges because the market

changed quite dramatically, and these were two new businesses that we were in, but after two to three years we started to gain momentum. It has given us a very solid foundation to capture business opportunities going forward.”

He adds that the acquisition of IBM’s back-end operations and capabilities gave Lenovo the “building blocks” to offer a fully integrated service, including data storage, servers and networks.

As part of its transformation, Lenovo has introduced what it calls its “three-wave strategy,” under which it focuses on three key areas: its core business, growth in key segments, and investing in emerging technologies.

“You can never say, ‘it is evening now,’ and take a rest. Something could happen at any time, in any part of the world.”

“We have introduced an intelligent transformation process to capture the opportunities coming out of the new economy driven by technology,” Wong explains.

He adds that Lenovo also recognized that its customers no longer wanted just devices, but they also wanted the infrastructure that was needed to support those devices. “We need to provide smart devices, smart infrastructure, smart verticals.” He explains that smart devices need to be backed by smart infrastructure, such as servers, storage and networks, while these in turn need to be backed by smart verticals, namely solutions that

enable different industries to make the best use of their smart devices and smart infrastructure.

“This really captures our belief that the world is getting smarter and we are building up our capabilities to meet those opportunities,” he says.

Constant innovation

One of the biggest challenges Wong thinks Lenovo, as well as the whole industry, currently faces is keeping up with the speed of change in technology. “Many of the things that we thought were impossible in the past are here today. The key is how this technology will be applied in our daily lives, and how will it make our lives easier,” he says.

To keep up with this change, Lenovo is constantly investing in innovation and has numerous research centres around the world. “Given the pace of change, we will not be able to excel in every area, we need to pick where to invest. We are not a purely scientific research company. Our aim is to leverage technology to improve the lives of our customers,” Wong says.

The group is applying this philosophy to its PCs, which remain its most popular product. “One of the reasons people use smartphones more than computers is because they are always on and always connected,” Wong says. “We want to put those features into our PCs to make them smarter. But to do this, we need to overcome challenges, such as using computing power and limited battery life, in order to create a much more user-friendly machine.”

He jokes that his colleagues tease him that one particular laptop Lenovo makes, the ThinkPad X1 Carbon, is specially designed for him, as it has high computing power



Wong Wai Ming was involved in Lenovo's decision to expand its product range from personal computers to include mobile phone handsets, data storage solutions and servers.

and long battery life, which means he does not need to recharge it on a flight from Hong Kong to New York.

Among Lenovo's latest products, Wong is particularly proud of Moto Mod snap-ons, modular accessories users can attach to a Motorola smartphone. These devices have been released in the United States, and fit on the back of moto z³ smartphones, the first mobile phones to have access to a 5G network, to give them different functionalities, such as enabling them to be used as a film projector or a smart speaker with Amazon's Alexa virtual assistant.

Another innovation breakthrough by Lenovo, unveiled in May, was a preview of the world's first foldable PC in the ThinkPad X1 range.

Lenovo also works cooperatively with other firms to develop innovative solutions. Wong explains: "Today you have a term called 'co-petition' because nobody can do

everything in one go, so you have to work with each other, and more openly, to get the most benefit. If you look at the history of technology, sometimes you have closed systems and sometimes you have more open ones. Most of the time the open systems are more successful. We subscribe to the view that a more open system will serve the needs of people better."

A trusted partner

Lenovo places a high emphasis on corporate social responsibility (CSR), winning a Platinum Award in the H-share Companies and Other Mainland Enterprises Category and a Sustainability and Social Responsibility Reporting Award in the same category in the Institute's Best Corporate Governance Awards 2018.

Wong explains that the driving force behind Lenovo's approach to corporate governance is that it wants to be the most trusted partner for all stakeholders, whether

these are customers, suppliers or colleagues within the company. "If we want to be a trusted partner, that has to be reflected in our culture and we have to build processes around it. Rather than just driving short-term profit, you have to drive sustainability."

Its CSR strategy focuses on areas ranging from employee welfare, to maintaining high ethical standards, including respecting intellectual property, to taking action to reduce its greenhouse gas emissions. More recently, it introduced packaging material derived from renewable sources, known as bio-based product packaging.

Lenovo has published an annual Sustainability Report for the past 12 years, in which it sets out its objectives and targets in this area, as well as providing progress on its performance in relation to previous targets, such as reducing its global direct and indirect greenhouse gas emissions by 40 percent from 2010 levels by 2020. It has so far achieved

Leadership profile

Wong Wai Ming

Wong was previously an investment banker for more than 15 years and also held senior management positions at listed companies in Hong Kong.



“When you encourage people to work together and they have a sense of belonging and a platform where their capabilities are recognized, it gives them the ability to perform.”

a 32 percent reduction. The group is working on improving transparency in its supply chain, and it requires suppliers to comply with its own Supplier Code of Conduct. It has also joined the Responsible Minerals Initiative and supports the Responsible Minerals Assurance Process, with 82 percent of the minerals it uses having conflict-free status.

In addition to these measures, the group has launched the Lenovo Foundation, which aims to empower minority groups through giving them access to science, technology, engineering and maths (STEM) education. “I think if you have an open company that embraces different groups of people, and accepts them as part of the family, it helps people to come up with innovative ideas,” says Wong. “When you encourage people to work together and they have a sense of belonging and a platform where their capabilities are recognized, it gives them the ability to perform.”

Lenovo also strives to make sure the head of each of its regions is from that region, rather than being brought in from China or Asia. “People from different parts of the world have different cultures and we put a lot of effort into building that up. In that sense, we are a truly global company.”

Accounting background

Wong started his career as an accountant, and he credits the skills this gave him for enabling him to go on to undertake the many different roles he has done. “I think if I was

not an accountant, I would probably not be in this position. Accounting gave me the basic training to understand what numbers mean. It is a very solid training for anyone to be successful.”

After graduating from the University of Manchester Institute of Science and Technology in the United Kingdom with a Bachelor of Science in Management in 1982, he joined accounting firm Moore Stephens in London, where he qualified as an auditor.

“At the time, everybody wanted to join one of the Big Eight firms because of their high-profile clients. Moore Stephens had a few high-profile clients, but a lot of their customers were small- or medium-sized businesses or even family firms. Working for them enabled me to gain experience in dealing with very small companies through to very big businesses. It was a wonderful three years,” he says.

After he qualified, he moved back to Hong Kong, taking up an investment banking job with HSBC, where Lenovo was one of his clients, before moving on to Bank of China.

Wong left the banking sector after nearly a decade to become chief executive officer at media group Sing Tao, which had also been one of his clients. He stayed there for five years, before taking up the post of CEO at investment holding company Roly International Holdings, and then moving on to be CFO at Lenovo.

He thinks his varied career has given him a deeper understanding of how businesses operate and

the importance of understanding customers’ needs.

Despite his more than 30 years’ experience, Wong still considers qualifying as an accountant to have been one of the most memorable moments of his career.

His second most memorable experience occurred when he was working at HSBC. The Mainland was beginning to open up its economy and he was involved in helping one of the first batch of companies to list.

The company, Maanshan Iron & Steel Company Limited, was based in Anhui Province, and there was no direct flight there at the time, with Wong having to fly to Nanjing and then spend a further two to three hours travelling. Alongside its steel operations, the company had a range of other businesses, including hotels.

“We helped the company transform and segregate its commercial and non-commercial activity, raise money and build a new production line,” Wong remembers. “It was a challenging transaction because it was a very traditional industry in place that did not have a direct flight, but it turned out to be very successful and raised US\$500 million.”

Wong’s current role does not leave him with much spare time, although he likes reading and enjoys watching football.

He describes himself as a “die-hard Manchester United fan,” following his days in the city as a student. “I have been a supporter of Manchester United for many, many years.”



At the Institute’s 2018 Best Corporate Governance Awards, Lenovo Group Limited won the Platinum Award and the Sustainability and Social Responsibility Reporting Award in the H-share Companies and Other Mainland Enterprises Category.





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Xero's Regional Director of Asia on easing the transition to the cloud for both employees and clients



How to migrate clients to the cloud

Cloud platforms and applications have become an integral part of the IT infrastructure of businesses around the world. As new technologies develop and deliver the sweeping digital transformation of industries, the prospect of greater revenue and competitiveness has increased significantly.

In online accounting, the benefits are obvious – accountants can obtain instant access to clients' financial data, and reduce time spent on manual reconciliation work. In their evolution to serve as business advisors to their clients, they can add value by offering business analysis, financial reporting and forecasting using tools that connect seamlessly with the cloud accounting platform. All these collaborations are also made simpler and more secure with a common dashboard and a single ledger.

Yet, a significant number of businesses have yet to migrate to the cloud, or have encountered hurdles in their migration process. According to research by Xero, only 17 percent of businesses have adopted cloud-based accounting software in Hong Kong. This is lower than 26 percent in Singapore, and significantly lower than their counterparts in Australia and New Zealand, which are leading in the world at an average of 40 percent.

Your clients may be deterred from migrating to the cloud due to the lack of IT personnel in their organization to handle the process. In fact, this skills gap has caused 40 percent of IT leaders to put their cloud migration on hold, according to computer security software company McAfee. Conflict with existing systems and cloud platforms with little to no vendor support add to concerns regarding poor integration and further deter adoption.

The cloud adoption journey differs from client to client, depending on their receptiveness and understanding of new technology, so it is important to assess where your clients are on the adoption curve. Clients who are early adopters will be easier to persuade, whereas late adopters will require more education and support during the process.

Successfully migrating clients to the cloud will improve your team's ability to service clients and deliver more added value via data analytics. As you consolidate your role as a business advisor through increasing consultancy work, you will also be rewarded with greater customer loyalty, which will boost profitability in the long term.

Here are three ways to engage with clients as they embark on their cloud journey.

1. Manage your clients' expectations

Clients need to understand that they must commit time and resources to lay a strong cloud foundation before they can reap the fruits of their labour. It is good practice to let clients know that there will be a period of transition and learning before the organization can enjoy the automation and efficiency that cloud adoption brings. Once time-consuming manual jobs are automated, it will be much easier for your clients to track their business performance on a shared dashboard.

2. Identify training to speed up internal adoption for your clients

Help your clients' workforce to prepare to migrate to modern accounting software by pointing them towards good webinars, workshops

and user guides to get up to speed. You might even want to consider leading a workshop for them to demonstrate the key software features and functionalities, and how they apply to their daily work. Fostering a small business community can also increase your clients' confidence as they move further along their cloud journey.

3. Make sure you and your employees are ready

When you recommend new cloud solutions to your clients, they'll see you as an expert. There will be issues along the way, so prepare your employees to handle urgent calls or emails from clients. However, it is important to draw a distinction between business support and technical support. You are there to help your clients manage their finances, not provide software support. If a client is calling repeatedly with software queries, refer them to the software company for the technical support they seek. The software company will also have specialist advice and training materials to help ease the transition.

The way forward

You already know that clients have different appetites for new technology. Practising these methods can help you create a strategy for moving them to the cloud. Identify your early adopters and work your way through the list. Use your success stories of the early adopters to encourage and convince more conservative clients to take the leap. As you go through this process, document your learnings and develop formal processes for introducing new technologies. It could become a whole new revenue stream for your business as you move into more complex advisory services.

GETTING IT RIGHT FROM THE **START-UP**



With the third Micro-, Small- and Medium-sized Enterprises Day coming up on 27 June, entrepreneurs tell **Liana Cafolla** about what it takes for start-ups to survive the start-up phase in Hong Kong and build a successful business

Illustrations by Roberto Cigna

Two events in January served as a reminder of Hong Kong's increasingly crowded start-up scene – StartmeupHK, an InvestHK initiative that supports founders of start-ups from abroad to set up or grow in Hong Kong, held a five-day event, and Startup Impact Summit 2019, hosted by WHub, held its annual event at the Hong Kong Convention and Exhibition Centre. Meanwhile, invitations for the RISE conference – a four-day event in July billed as the largest technology conference in Asia – have already started going out.

InvestHK, which also hosts dozens of start-up related events throughout the year, reports that 2,625 new start-ups launched here in 2018, up 18 percent from a year earlier. The new businesses are growing faster too, with recruitment up 51 percent year-on-year, and now totalling 9,548, or around four employees per business.

According to InvestHK, start-ups are attracted by Hong Kong's strong network of incubators, accelerators and co-working spaces, start-up community, government policies that support innovation,

and a multicultural ecosystem. That is in addition to the city's long reputation as an easy place to do business based on its strategic geographical location, rule of law, minimal bureaucracy for starting a business, low and simple tax regime, and a population with a reputation for entrepreneurship and hard work.

However, not all entrepreneurs agree that Hong Kong is the easiest place to set up a business. Janice Chew, who launched her start-up legal firm JC Legal in the city a year ago, says the costs of doing business in Hong Kong are high for small businesses.

"To be frank, Hong Kong might not offer the best environment for start-ups," she says. "For instance, if you're talking about fixed expenses like labour costs, in Hong Kong it's going to be a lot. And rent – even though there are lots of co-working spaces – how can start-ups pay five or six thousand every month for co-working just to have a desk?"

Costs aside, Chew sees Hong Kong as well-positioned for her internationally focused business. "I chose Hong Kong because it is

a city of opportunities," she says. "Hong Kong is favourably positioned as a bridge between Chinese and overseas markets. Almost half of my clients and associate partners at JC Legal are overseas or run by expatriates based in Hong Kong. This is also why I see great potential in building cross-border networks to support our global practice."

Tough city

Jonathan Glover, Founder of burger restaurant The Butchers Club, says that in Hong Kong, rent can make or break a business. "The successes that I've had in my businesses have all been based around real estate deals, and the failures that I've had in my businesses have also been based around bad real estate deals," he said at a recent start-up seminar.

Two positive experiences resulted in a speedy recovery of expenses when he found retail spaces at low-cost rents and fitted them out cheaply. In one case, he got back his return on investment in the fit out in just 12 days, in another, when he took over an existing premises from a friend, it took three weeks.

Start-up ecosystem and government support

Start-ups, and the ecosystem that surrounds them, are increasingly making their presence felt in Hong Kong. Start-up events typically feature new business owners talking about their ideas and plans for the business, successful owners sharing advice and tales of hard-won successes, investors discussing what they look for in a start-up before deciding whether to commit funds, and those looking for inspiring success stories as they debate whether they have what it takes to build a start-up themselves.

StartmeupHK, an InvestHK initiative, and Startup Impact Summit 2019, hosted by WHub, were both held in January. On a smaller scale, Garage Academy holds regular events aimed at start-ups, Startup Grind hosts local events in 125 countries, including Hong Kong, featuring entrepreneurs and investors, and "Born to be the Boss" – organized by JEM Group,

the publishers behind the book of the same name which told the success stories of six Hong Kong entrepreneurs – hosted its inaugural start-up conference in November with the aim of boosting enterprise in Hong Kong.

In addition to the growing number of start-up forums and seminars, Hong Kong's start-up ecosystem – and tech companies in particular – will get a boost from three measures in the city's 2019/20 budget announced on 27 February. The government has been offering one-off tax reduction relief since 2007/08, to reduce the burden of taxpayers, in particular the taxpayers of the lower income groups. For the year 2018/19, profits tax, salaries tax and tax under personal assessment for the year will all get a one-off cut of 75 percent up to a ceiling of HK\$20,000. Business registration taxes will be waived for 2019/20, and HK\$5.5 billion is being set aside to develop Cyberport 5 to enable it to accommodate more technology companies and start-ups.



Hong Kong is ranked the 28th best place globally for start-ups, according to the *Startup Ecosystem Rankings 2019* report by StartupBlink, a start-up research centre. The findings were based on three factors: (i) Quantity: the number of registered start-ups, (ii) Quality: the overall impact of start-ups and (iii) Business environment: how easy or difficult it is to do business in a given location based on technological infrastructure and bureaucracy.

But in another case, he found a major Hong Kong landlord "a nightmare to work with" because of restrictions put on how he could run the business, which made it difficult for him to make money and led him to regret signing the lease. "This is the key to success: Find a space that you can afford and, a landlord that you can work with," he advises. "Don't worry so much about the location – you can always drive business to your location."

Chew, who started the business with two people and now has 12, is planning to build her clientele by offering her clients international networking to other legal firms at cost price. She says that while technologies such as blockchain and artificial intelligence are changing the legal landscape, legal advice is something that can't be replicated, so she is focusing on building an international legal network for her clients to tap into when they are looking to expand to new markets. "The difference between our firm and other law firms is we never mark up the price of the other country's lawyers," she says.

Multinational companies are not looking for small law firms like hers, she says – and she is not look-

ing for them either – start-ups make up a good percentage of her clients, as well as dispute resolution. The appeal of start-ups for her is simple: "I think I know what the start-up is thinking, because I'm one of them – if I'm looking for a service provider, the first thing I'm looking at is the price," she says, proving that even in a tough city, it's still possible to find a niche for a business if you think creatively.

FinTech leads

Chew's business in professional and consultancy services is the third most popular category for start-ups in the city, according to InvestHK. Her client, 26-year-old Ankit Suri, Founder of early stage start-up Planto, is in the most active category, FinTech, accounting for 427 start-ups.

Planto is an app that provides millennials with easy-to-use financial information. "We felt that millennials need a better way to manage their finances and to take out all the jargon that exists across the financial world, and get essential very trusted or data-driven advice that is simple and actionable in nature," explains Suri.

Suri's own negative experiences

and frustrations as a bank customer had convinced him the sector needed alternatives. He saw an opening for a jargon-free personal banking service that understood millennials and was geared to their needs. He launched his own business with two partners in November 2017, after working for a year in HSBC's retail management team to gain hands-on experience of banking and another year at FinTech company MoneyHero, where he learned how a personal finance start-up works.

Planto's first investor pitch drew no money and negative comments. "That sort of motivated me even further," he says. "We realized very quickly that we don't need a lot of expertise in order to build a good product because we are all engineers and we have a product background. So that's what we did – we built a good product and gave it out to about 200 users."

In the meantime, recognizing that he and his fellow founders didn't have all the skills needed for the business, he also gathered a team of advisors and mentors in the sector.

"We did what we could do best, i.e. engineer the product, talk to



consumers – and advisors and mentors would help us navigate strategy, help us with their expertise such as financial planning, regulatory requirements, legal requirements,” he says. “We initially onboarded senior marketers, a senior financial planner, a senior portfolio manager and a serial entrepreneur because all of them could contribute some skill sets we didn’t have to executing the vision.”

He also got support and introductions through iDendron, an incubator and entrepreneurship hub of the University of Hong Kong, where Suri graduated in 2013. iDendron provided office space, a student population willing to test the product, and a measure of credibility. “FinTech is hard because there are so many scams out there,” he says. “So having to attach yourself to iDendron helped us convince people we were real.”

He says iDendron and other

“Find a space that you can afford and, a landlord that you can work with.”

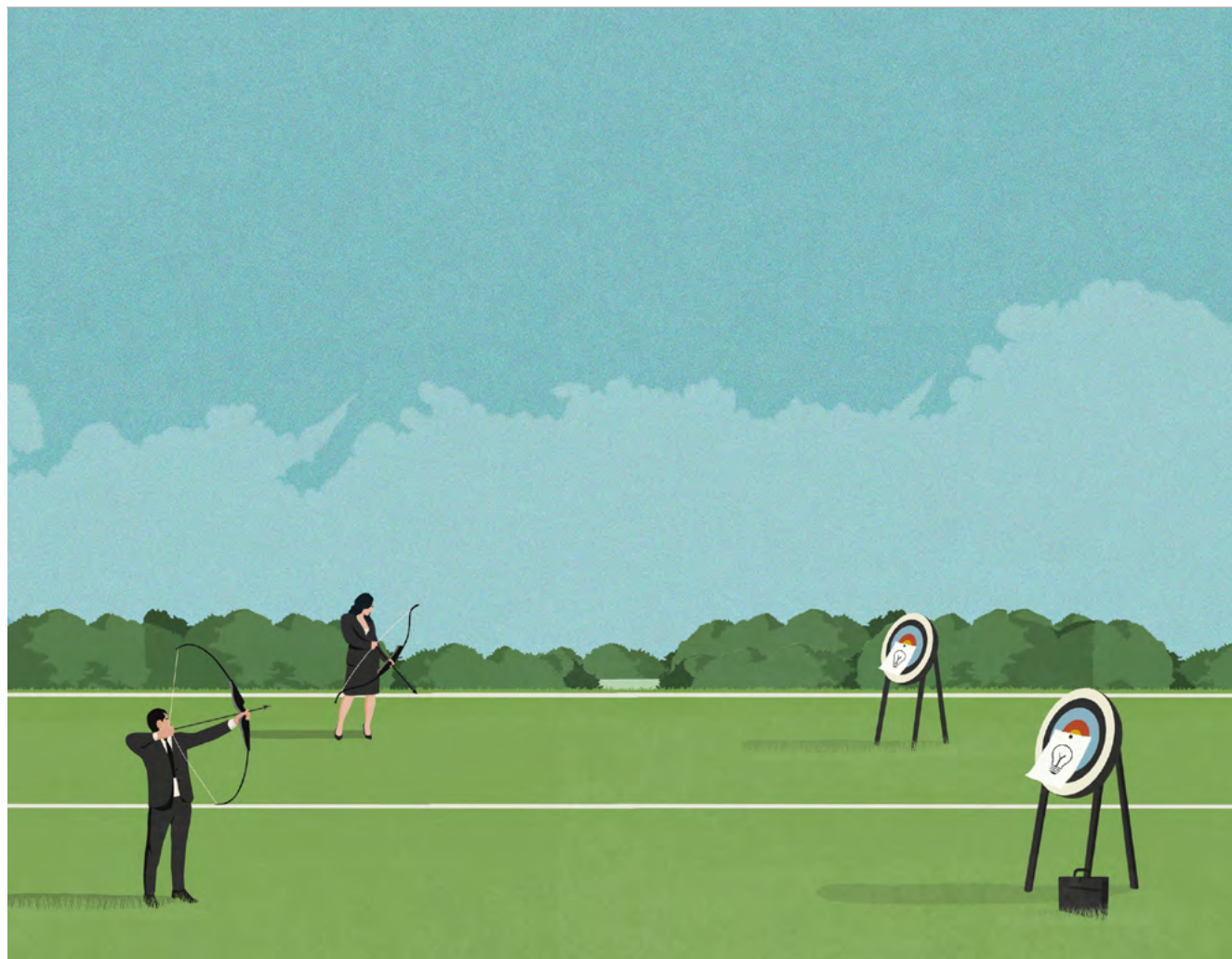
private and public support available in Hong Kong are important to help start-ups get going. “There is lots of help around here to get started for sure. Accelerators who fund people and ambitious founders, government grants (Cyberport, Hong Kong Science Park) who give you ‘X’ amount of money to make a prototype, and it helps that this place has the highest number of ultra high net worth individuals per capita anywhere in the world, which means angel investment can be pretty accessible if you get into the right networks,” he says.

That kind of support encourages

start-ups to feel that anything is possible, he adds. “Any entrepreneur in Hong Kong is taught here to dream big – government grants encourage overseas expansion, investors almost mandate it. The society around here wants you to dream big.”

For others, Hong Kong was simply an appropriate choice for a particular business idea. Jason Zheng, who set up HelloToby in 2016 – an online portal where small service providers can showcase their offerings and where members of the public can find specialist freelancers in multiple areas – says he and his two fellow founders saw that Hong Kong was underserved in this area compared to Mainland China and decided to seize the opportunity. “It’s not like we chose Hong Kong – we all just lived here,” he says.

Three years in, he can identify Hong Kong’s advantages. “It has



a mature financial system with the infrastructure in place, and setting up a business is very easy and very cheap,” he says. He points to government support such as Cyberport and Hong Kong Science Park, which his team found very useful for networking. “It’s a place to gather and meet others,” he says of Cyberport.

HelloToby had an angel investor from day one and has grown from a team of six people, including Zheng, to 28, but it has had its share of hiccups along the way. From his previous experience in another start-up, he knew that online marketing options such as Google ads that are usually used by start-ups are not easy to use, so he focused on making the service simple, actionable and cost-effective for users. Business grew smoothly at first, but when growth plateaued after the first year, the team decided to

“If you’re not sure whether to start a business, it’s best to experience it.”

experiment with a new customer experience, but it didn’t work out. “It cost us six months, which is a long time for a start-up,” he says. In the aftermath, they spent time examining what had gone wrong and making changes. Now Zheng says the business is growing more healthily.

For new start-ups, he says it is very important to build momentum in the early stages. The business should focus on setting achievable priorities to keep motivation flowing, especially in a small team where it’s not possible to do everything at once. “Make sure your first steps are actionable and

set and stick to a fixed timetable,” he advises.

For those who are contemplating dipping their toes into start-up waters, hands-on experience is the best guide, he says. “If you’re not sure whether to start a business, it’s best to experience it,” he says, suggesting that interning, or taking on a part time role, even if it’s unpaid, in an early stage-start up can provide insight and understanding to what is involved and whether you have the grit and drive that it takes to succeed.

Learning lessons

Cementing the growth of start-ups is an ecosystem that supports and promotes start-up culture, such as the numerous shared and co-working spaces that have sprouted up around the city, many of which are start-ups themselves. One such company is theDesk, co-founded

by Thomas Hui. Hui says one of the toughest lessons he has learned has been how to handle the stress of running his own business.

After launching his first site in Sai Wan two and a half years ago, he decided last year to expand to two new sites in Causeway Bay, an expansion that caused him a lot of financial stress. "I didn't secure enough money for these two sites. I didn't know whether I could compete with international players," he explains. His friends warned him not to do it, advising him to stay small.

Hui managed to make the expansion a success and recently opened a fourth location, in Admiralty. His advice to those contemplating launching a business is to build a team of people you trust and with whom you can share the burden of the challenges facing you.

"The biggest thing for me was understanding that failure is not permanent."

He also advises founders to accept that uncertainty is normal and treat it as a learning opportunity. "When you face stress, firstly you need to assume that uncertainty is good for you," he says. "Try to dance with risk. Every day you need to assume that you are ignorant, that you need to learn."

Retaining a learning mindset is something food and coaching entrepreneur Lori Granito relates to. She says one of the most common mistakes she sees by new business owners is

inadequate financial preparation and totting up the real costs of running a business, including the small things, "like having to pay somebody to take away your rubbish every day," says Granito, who has also given four TEDx talks and is a board member of The Women Entrepreneurs Network.

Another common mistake, she says, is taking failures personally rather than seeing it as a learning experience. It's important to see failure as part of the journey, advises Granito. "The biggest thing for me was understanding that failure is not permanent," she says. "We all are going to make mistakes. As an entrepreneur, it is part and parcel of being in business and you have got to learn to pick yourself up, dust yourself off and get back on the course."



From start-up to heavyweight

Twenty-two years ago, Hong Kong lifestyle brand G.O.D. was a start-up, founded by Douglas Young and his father, both of whom were architects. The younger Young left Hong Kong for boarding school in the United Kingdom at age 13 and didn't return until he was 30.

Back in Hong Kong, he felt like a hybrid of both cultures. He saw Hong Kong's everyday designs and traditional emblems as worthy of being celebrated and shared. His ultimate goal is to bring a part of Chinese culture and fashion to the world, as a valid cultural style, he says, in a similar way as jeans reflect American culture. "I get inspired by our history," he says.

Today, flush with success with about a dozen outlets around the city and partnerships with Starbucks under his belt, Young recalls the early days and countering the pessimism that his plan met with. "When we first started,

people told us, 'you can't do a brand that's about Hong Kong either, because Hong Kong people like foreign stuff,' he says. "So if you start a brand in Hong Kong, you've got to find an Italian name, or a French name. Because if they find out it's made in China, they won't buy it."

That negative feedback just made him more determined to do it, he says. Now, looking back after more than two decades in business and having experienced being both a small business and then a big one, Young says his advice to would-be entrepreneurs is to bear in mind that running a big company is not always the best experience.

His happiest times were when the company was small and growing because he enjoyed the experience of having a dream and turning it into reality. "It's actually good to be small sometimes," he says. "It's not all about growth. To be able to say you really enjoy the work, is already a huge, huge, privilege."

Success ingredient

Gloria Yuen



BRINGING FIGURES TO LIFE

Merlin Entertainments is one of the world's leading entertainment groups. **Erin Hale** talks to Gloria Yuen, its Finance Director – Asia, about managing the group's Asian indoor attractions, and the pressure of keeping the world entertained

Photography by Calvin Sit

Gloria Yuen got her big break after one of Hong Kong's darkest hours. A year after the SARS epidemic hit in 2003, the government announced plans to invest in the entertainment industry to help tourism recover following one of its worst years on record.

"I saw there would probably be an opportunity for me, so that's why I selected the entertainment industry," Yuen says over coffee. "The government really focused on boosting the economy and the entertainment business was one of those plans."

Madame Tussauds Hong Kong was looking for a financial controller, so she applied. Little did she know that she would stay with the company for the next decade and a half, first at the famous wax museum, and then rising up the ladder of its parent corporation, Merlin Entertainments,

a leader in location-based, family entertainment, listed in the United Kingdom.

The chance to work for an expanding company with a long history was an exciting opportunity, she notes. "Madame Tussauds to me is a fun entertainment business that has a 200-year plus history in Europe, so it gives me a mix of old and modern perception," Yuen says.

She had never been to a Madame Tussauds before applying to the position. The initial visit was revealing. She found its famous wax reproductions of celebrities and historical figures to be a memorable and immersive experience that also encourages interactivity with guests.

As Yuen embarked on her new career in the entertainment industry, it was also a dynamic time for Madame Tussauds. From a company that earned initial infamy, rather

than fame, making waxworks of victims of the French Revolution – before opening its first permanent location in London in 1835 – Madame Tussauds was finally expanding across Asia.

Hong Kong was its first Asian stop with a waxwork exhibit opening at the Peak in 2000. The collection came from Australia, where it had gone on tour. The new permanent location was a huge hit and now welcomes one million tourists a year, particularly from Mainland China and Southeast Asia.

From Madame to Merlin

As Madame Tussauds expanded its Asian footprint, Yuen added new locations to her portfolio. One of her first victories was helping the company to open its first permanent showroom in Mainland China in 2006. The new Shanghai branch presented a number of challenges,

“The government really focused on boosting the economy and the entertainment business was one of those plans.”

from how to build up a brand in a new country while also handling different reporting standards to those in Hong Kong. “China itself is very complex in its tax and regulatory regimes, and for me, it was a big challenge,” she says.

Yuen went on to help the company expand further across the region, and Madame Tussauds now has locations in India, Japan, Singapore and Thailand in addition to the Mainland. Each location has its own special blend of characters appealing to the local audience, Yuen says. Madame Tussauds Hong Kong, for example, is the only location where visitors can see wax figures of Mao Zedong, Deng Xiaoping and Xi Jinping.

Yuen eventually made the switch to Merlin Entertainments and these days she is Finance Director of their Asian indoor attractions team. She has added the company’s Sea Life Centre aquariums and its LEGOLAND Discovery Centres to her portfolio and now oversees 13 sites across five countries.

Sea Life aquariums can be found in China, Japan, South Korea, Malaysia and Thailand, and offer a family-friendly encounter with marine life. LEGOLAND, meanwhile, targets children between three and 12 with LEGO displays, rides and other LEGO-themed attractions in China and Japan.

Yuen says she enjoys the opportunity to work for so many brands. “I find it very interesting to deal with different types of issues from new set up, growing sites beyond their ‘champagne effect,’ and site recovery from different challenges – either controllable like management turnover or non-controllable. Recently we’ve had to respond to

political issues in Bangkok and natural disasters like a typhoon or earthquake in South Korea.”

International auditor

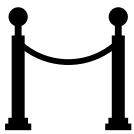
Yuen’s core responsibilities as Finance Director are to lead her team in all functions of finance, financial reporting, analysis and compliance in the Asia region and ensure that they maintain the highest standards of ethics and integrity. She also serves as the point of contact with Merlin’s head office in the U.K.

Yuen works with a diverse team of local and international hires at each site, which requires her to sometimes adjust to each work space. “Respecting and adapting to the different cultures in Asia is very important. One thing in common is the same ‘accounting language’ we universally speak. Challenges are always there: different languages, different rules and regulations, different mindsets and different practices,” she says.

“The most important thing is we do not compromise integrity to accommodate any situation which puts the company at risk or damages our reputation,” she adds.

Another responsibility for Yuen is to make sure her team stays on top of new developments in accounting standards and professional development training, for which she often relies on her network of Institute members to share experience and best practices.

As an Institute member, Yuen says she feels she can influence younger finance team members to pursue higher qualifications. She recalls one younger staff member who obtained his CPA qualification while working



Madame Tussauds first opened in London in 1835 and was founded by Marie Tussaud, a native of Strasbourg, France. There are now nine museums in Asia, seven in Europe and North America and one in Australia. The newest museum opened in New Delhi, India in 2017 and features over 50 wax models, including Prime Minister Narendra Modi and national cricket icon Sachin Tendulkar.





Gloria Yuen first worked as an auditor at PwC. She is now Finance Director – Asia of Merlin Entertainments and is pictured here with a wax figure of Chinese President Xi Jinping.

for her team, during which time he was also mentored by his line manager.

“He shared that he appreciated the environment that we provided him to learn from us, and the encouragement, which facilitated his development into a qualified accountant,” she says.

Yuen says that two recently implemented accounting standards have impacted her work: Hong

Kong Financial Reporting Standard (HKFRS) 15 *Revenue from Contracts with Customers*, and HKFRS 16 *Leases*. While they have had a significant effect on her work, these updates have also required “a lot of backend work to cope with the changes,” she says.

She says much of this work involves first understanding how the changes will impact Merlin and its financial statements going

forward, liaising with auditors in other countries who apply the same standards locally to their statutory accounts, and also training other employees across Asia.

The cost of fun

At Merlin, each site brings its own challenges, she says. At Madame Tussauds, the key drivers of cost are wax figure maintenance and staffing, which varies depending

Success ingredient

Gloria Yuen

on the season.

“For labour cost, we require more assessment from time to time on the mix of permanent staff versus variable part-timers. During non-peak season, you may not need to have that many part-time staff, but for peak season, like summer and bank holidays, you may need to hire more part-timers. That’s a way to control cost,” she says.

Merlin’s Sea Life aquariums, on the other hand, have a completely different financial profile.

“Even if you close your business, you still have to feed the animals so we have to invest in the life support system,” Yuen says. “Also the maintenance on an aquarium is quite massive. This has an impact on the bottom line. In terms of the profit margin, the aquariums are a lot lower than Madame Tussauds.”

Another way that Merlin controls costs, Yuen says, is to merge management roles where they can provide more synergy. She says Merlin might put one manager in charge of liaising with travel agents to bring tourists from India to three of its sites across Asia rather than having three individual employees working in different countries to attract Indian tourists.

For her next project, Yuen will be keeping her sights set on Hong Kong, where Merlin will open a new family-based attraction next year focusing on children aged three to 10.

Family lessons

Even though she has almost 20 years of accounting experience, Yuen continues to apply many of the lessons she learned from her father, who was also an accountant. His influence guided both Yuen and her sister to ultimately become accountants as well.

“I still remember I learned my first bookkeeping entries from my father over one of my summer holidays when I was very young,” she says. “I also found that I had a natural feel for numbers. I don’t hate numbers.”

Her father pushed her to study overseas and Yuen ended up studying accounting at Sydney University – a choice she says that helped her to learn important life skills.

“The decision to study abroad was also inspired by my father because he always encouraged me to be more open and set my sights overseas. I learned to be independent and had to adapt to a new environment.”

After finishing her studies in the late 1990s, Yuen returned to Hong Kong where she worked for PwC as an auditor for few years before moving back to their Sydney office for two years. She spent eight years in the industry before gaining her CPA qualification.

“What I built as my core competencies was professionalism as an accountant, with sound accounting knowledge. Integrity is another key basic competency which enables me to gain trust from others,” Yuen says.

“Managing a portfolio of clients from a property developer to a canned soup manufacturer also trained me to perform tasks independently,” she says, looking back at her Big Four experience. “My problem solving skills were also developed from the analytical skill set during those eight years as an auditor.”

Diverse experience

Now married with children, Yuen says her family life inspires her



Yuen has worked at Madame Tussauds for over 15 years. She is pictured here standing at the museum’s K Wave Zone, which pays tribute to Korean celebrities such as Suzy Bae and Lee Jong-suk.

work for an entertainment company.

“I have a son who loves animals and LEGO so much that working in a family entertainment industry definitely helps to explore his vision and interest. Indeed at work, I would contribute my ideas by looking at things from my son’s perspective and thought from his ‘customer journey’ to help the marketing team to design our new products

“My problem solving skills were also developed from the analytical skill set during those eight years as an auditor.”



for the guests,” she says. “Besides, as a mum, I found myself seeing things differently. I found that I am more empathetic towards the younger staff at work. These are new qualities I have developed as a manager.”

Over her many years in the accounting profession, Yuen says she has seen growing recognition within the accounting profession

that work-life balance is important to overall employment success. While she has her busy weeks during crunch time each month, many workplaces are now acknowledging that employees need their break time. Yuen believes many of the younger generation of accountants have helped to change the industry’s culture. “The younger generations

are much more laid-back,” she says.

Advising the next crop of young CPAs, Yuen says they should focus on one core competency that they feel the most passionately about and build their skill set outwards from there. Slowly, over time, it is possible to build a cluster of skills and diversify both experience and critical thinking.



Champion CPA singers share with **Erin Hale** their experience participating in the Institute's singing contests, and why singing is more than just hitting the right notes

Photography by Calvin Sit

Growing up, Adam Wong's father would bring home cassette tapes of famous Hong Kong and Taiwanese singers like Teresa Teng, Danny Chan and Anita Mui, and would take him to browse in music stores.

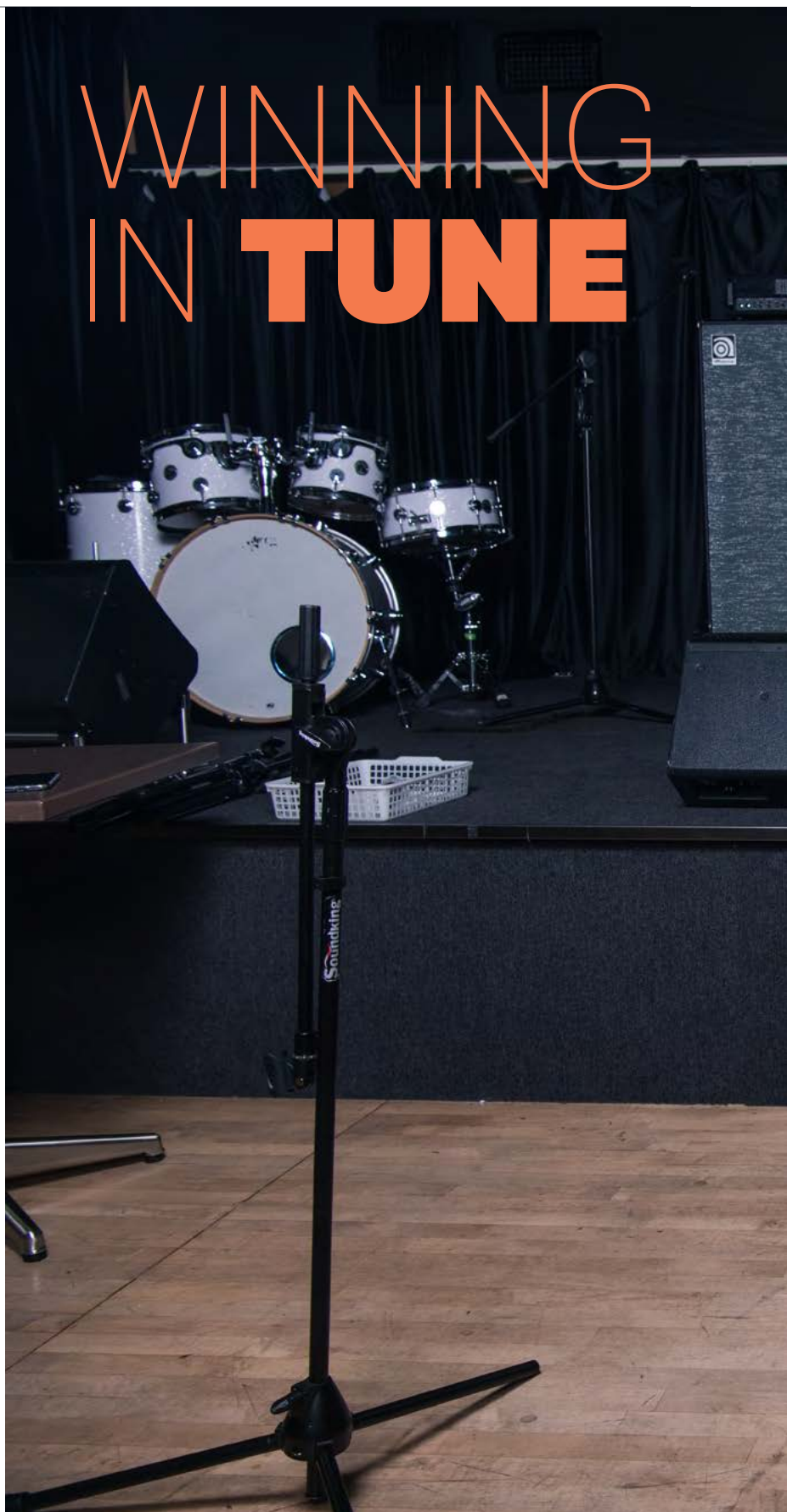
Over time, those sounds of Cantonese and Mandarin pop inspired Wong to begin recording his own versions. "At 12 years old, I even recorded my own singing on a cassette tape at home," Wong recalls. "I still remember that it was Sammi Cheng's songs I was singing."

Wong approached his singing with enthusiasm, participating in singing competitions in secondary school and even organizing his own performances. As he grew older, though, his interests and concerns began to change. While he liked singing, he ended up pursuing a career that is less dependent on relationships with agents and music labels. He went on to study accounting.

Wong's trajectory is similar to many of the members of the Institute's Singing Interest Group, who have found a way to expand their love of singing through lessons and competitions. Many have found teachers who have helped them improve their vocal range from a classical choir student to a Cantonese or Mandarin pop singer.

Today, Wong is Senior Audit Manager at EY, but he has not lost his childhood passion for music. He regularly performs at firm dinners, even writing a musical for one event, and has his own karaoke machine for singing at home.

WINNING IN TUNE





(Clockwise)
Elaine Kwong,
Jacqueline Hsui,
Natalie Tam and
Adam Wong

Work and life

CPA singers

“For me, singing is a way to connect with people. It is a way for me to express my emotion freely without constraints,” he says.

While he always enjoyed singing, his hobby was rekindled when he joined his first CPA Singing Contest in 2013. Wong performed solo and, despite his passion, it was a struggle.

He chose the wrong song, he says, and he was not used to performing.

“I was so nervous, my hands were shaking and my voice wasn’t so stable. I even chose the wrong song with the wrong pitch,” he says. “But at the end, I tried my best to perform. I was not one of the top three [finalists], but I was the most popular contestant.”

After his performance, Wong began to take lessons through the Institute’s Singing Interest Group and greatly improved his skills. The following year, he was champion in the solo division. He went on to compete city-wide against other professionals in the 2017 Recreation and Sports Club for Hong Kong Professional Bodies (RSCP) Singing Competition, coming in second place in the group category.

The members of the Institute’s Singing Interest Group all agree that singing has been an important way for them to manage stress at work. The career of an accountant, particularly in the early years, is often busy and challenging, but

singing has helped many CPAs to find their right work life balance.

Wong says that singing has become a deeply important way for him to manage stress. “Working in this professional firm is quite challenging, and I have been here for over 11 years. My job is very stressful but singing really helps to release all that stress,” he says.

He found exercises to open his voice particularly soothing, as they require him to focus on many technical aspects of his singing and nothing else. “Some exercises help you forget all your frustrations because you need to think about how you use your larynx, head tone and your breath,” Wong says. “Because there are many things

“For me, singing is a way to connect with people. It is a way for me to express my emotion freely without constraints.”

Melody Li
teaches
business
assurance

Adam Wong
was Champion
in the 2014
CPA Singing
Contest’s solo
division

“You need to understand the meaning of the song’s lyrics to know what the original performance was like to bring out that same emotion.”

Natalie Tam was solo champion in both the 2016 and 2017 CPA Singing Contest

to handle at the same time, you suddenly forget your stress.”

Wong says there is nothing to fear for anyone who might be a little nervous about joining a group that requires them to perform in front of others and in public. “Most of the CPAs are shy, but what I want to tell them is they don’t need to judge themselves for how they sing, because everyone has a unique voice,” he says. “They need to appreciate the differences – don’t just copycat the singers in the market.

Learning experience

Natalie Tam, Manager in Assets and Liability Management Committee Support at Fubon Bank (Hong Kong), is another Institute member who has found much success in lessons organized by the Singing Interest Group. She still remembers her first times behind the microphone. “I was inspired by my mother, who also loves singing very much too. We used to sing karaoke at home when I was small.”

Similar to Wong, the interest

group has helped her to turn a childhood interest into competitive success. Tam was the champion in the solo division in both 2016 and 2017 of the Institute’s CPA Singing Contest, and champion in the 2018 RSCP Singing Competition’s solo category.

“I first got into choir singing when I was young, and sang mostly Christian songs – a big difference from what I am singing right now, which is pop songs,” she says.

Tam mentions that the demands of a pop performance are very different from those of choir singing, such as the vocal techniques used and the amount of practice required to win a contest. She has also learned how to express emotions through song as part of her performance, something she does by studying videos of previous renditions and covers of her chosen song.

“If you want to perform a song well, you need to have different techniques. For example, you need to get all the notes right, and you need to get the rhythm right,” Tam says.

“Additionally, you need to

understand the meaning of the song’s lyrics to know what the original performance was like to bring out that same emotion,” she says. “When you go on stage you need to fully concentrate on your performance and try to think about what kind of emotion you want to deliver to the audience.”

Tam has been recruiting existing friends to classes. “It’s quite funny because I am the one bringing my old friends instead of making new friends,” she says. “But I develop a much closer relationship with my friends when I sing with them.”

A chance to compete

Jacqueline Hsui, Assistant Manager in Risk Management and Financial Analysis at Soundwill Holdings, previously competed in singing contests in secondary school before joining the interest group. She has since found many ways to improve her performance.

Similar to Tam, Hsui’s previous experience in a school choir did not completely prepare her to deliver a

Work and life

CPA singers

Jacqueline Hsui was solo champion in the 2018 CPA Singing Contest



“Pop songs are more powerful than [traditional] songs. It’s a bit different.”

pop performance. “Pop songs are more powerful than [traditional] songs. It’s a bit different,” she says.

Pop performances require a more commanding and emotional performance and rely on different breathing and projection techniques than singing as one member of a typical choir.

Through her lessons with the Institute’s Singing Interest Group, Hsui also learned how to convey her emotions for a more dramatic effect. “My teacher said the audience cannot feel my emotion from the songs so I keep learning how to sing,” she says.

Hsui notes that she has been particularly successful thanks to her teachers and constant practice. She was the champion of the Institute’s 2018 CPA Singing Contest’s solo division and won “my favourite performance,” and was runner up in the group division.

Her recent wins qualify her for the upcoming RSCP competition in July, where she will represent the Institute. She was also part of

the winning team in the Institute’s 2015 CPA Singing Contest’s group division, which led to her competing in the RSCP’s 2016 Singing Competition where her group came in third place.

New challenges

Hsui often sings with fellow CPA and friend Elaine Kwong, Senior Manager at Deloitte. While Kwong competes less these days since her victories in 2015 and 2016, she says competing is a very positive experience. “I think competition is a form of motivation because you have a very clear goal: win the CPA Singing Contest first and then target the RSCP,” she says.

After her victories, Kwong took a short break from competing, and kept up her singing by performing at her firm’s events, including its annual dinner. But the break did not last too long. Recently she has started participating in more competitions.

“I started doing competitions again, but public ones. It’s been

two to three years since I won the RSCP and I was so scared at my first competition,” she said. “I try to take part in competitions regularly to warm myself up. We have performances as well, but performing and competing are two very different things.”

Both Hsui and Kwong agree that when it comes to singing challenging pop songs, Mandarin is easiest due to the fact that the language only has four pronunciation tones compared to Cantonese’s six. While they tend to choose Mandarin pop songs, to challenge themselves, they say they will try to sing more in Cantonese and also in English, the most challenging language of all.

Kwong says singing is her way of unwinding after a long day. “It helps a lot because if you are too stressed from work you need something to divert your attention,” Kwong says. “And singing is one thing I can focus on and not think about anything else.”



A Plus is looking for Institute members who enjoy doing urban farming 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.



“Singing is one thing I can focus on and not think about anything else.”

Elaine Kwong
was the 2015
CPA Singing
Contest
champion

Groundbreaking VAT policies aiming to re-energize the Mainland economy

Kenneth Leung looks at the implications of Mainland China's new value added tax policy and how businesses should react to benefit from them

Since the start of 2019, Chinese authorities have issued a suite of tax circulars which set out groundbreaking value added tax (VAT) rules to help implement the decision made by the State Council to re-energize the Chinese economy.

The key features of the circulars are summarized in Table 1.

Economic rationale behind the VAT measures

The master plan for the changes was first unveiled in the *Report on the Work of the Government 2019* on 5 March by Premier Li Keqiang. The report made clear that the key purpose for the VAT changes is to stimulate sustainable economic growth by lightening the tax burden. It is expected that the tax savings generated by the reforms would ultimately help re-energize private consumption.

One important point to note is the well-received statement, "the tax burden for all industries should be reduced – not increased," was reiterated in the Premier's announcement. This demonstrates the government's continued efforts to implement tax reductions. It has been reported that the government has budgeted CNY2 trillion to fund the VAT changes and other tax reduction measures such as social security changes.

Significant VAT rates adjustments

Public Notice [2019] No. 39 (PN39) set out reducing the VAT rates of 16 percent and 10 percent to 13 percent and 9 percent respectively. The details of the five applicable VAT rates are in Table 2.

While the business community

generally welcomes the significant VAT rates reduction and is excited about the benefits of these measures, some business arrangements could face pressure due to increased VAT expenses and reduced margins.

The new "super input VAT credit" regime

From 1 April 2019 to 31 December 2021, taxpayers providing the following four "qualifying services" are entitled to an additional 10 percent super input VAT credit:

1. Postal services,
2. Telecommunication services,
3. Modern services, and
4. Lifestyle services.

PN 39 sets out the follow conditions to be met before obtaining this credit:

- Taxpayers need to submit a "Declaration on Adopting Super Input VAT Credit Policy" through the Online Electronic Tax Office.
- Sales revenue generated from the applicable services needs to exceed 50 percent of the taxpayer's total sales revenue.
- The 10 percent additional super input VAT credit is computed based on the amount of recoverable (not total) input VAT.
- The credit is not available to taxpayers making export sales of goods or providing cross border services. This is because the regime cannot distinguish between these export services and the taxpayer's domestic supply of services.
- Excess super input VAT credit can be carried forward to the next VAT return period, up to the last return period ending 31 December 2021.

Expansion and acceleration of input VAT recovery

PN 39 set out three input VAT recovery changes.

Accelerate input VAT recovery to the acquisition of immovable properties

Under the previous VAT rules, taxpayers were required to split the recovery of input VAT incurred on the acquisition of immovable properties over two years, with 60 percent recovered in the first year and the remaining 40 percent in the second year. PN 39 enables a one off VAT recovery (i.e. in the month of purchase) of the input VAT incurred for the purchase of immovable property.

STA Announcement [2019] No. 14 (Announcement 14) sets out the detailed rules for input VAT transfer out/clawback arrangements when there are changes to the use of immovable property (e.g. the immovable property has changed from taxable use to VAT-exempt use).

Expanding input VAT recovery for domestic passenger transportation services

Under the previous Chinese VAT rules, there were specific provisions denying the recovery of input VAT. One of these was related to the costs associated with passenger transport. This input VAT disallowance applies even in the case where the passengers in question are employees of the business and the travelling arrangements are solely made for business purposes.

The business community has often, over the years, suggested relaxing this input policy and PN 39 has facilitated a breakthrough. From 1 April, taxpayers are allowed to recover input VAT when

Table 1 – Key features of the tax circulars

Circular name and issuing authorities	Key areas of changes
Public Notice [2019] No. 39 (PN 39) jointly issued by the Ministry of Finance, the State Taxation Administration (STA), and the General Administration of Customs	<ul style="list-style-type: none"> • Detailing VAT rates reductions. • Revising input VAT recovery rates for the purchase of agricultural products. • Setting out changes to the export VAT refund rates for regular export and tourist refunds. • Allowing up-front VAT recovery on the acquisition of immovable properties and passenger transport. • Introduction of the 10% additional “super input VAT credit” regime to taxpayers mainly engaging in postal and telecommunication services, modern services, and lifestyle services. • Introducing a revised refund arrangement for incremental excess input VAT.
STA Announcement [2019] No. 14 (Announcement 14)	<ul style="list-style-type: none"> • Transitional measures relating to the reversal of transactions during the VAT rates adjustment period. • Input VAT transfer out/clawback arrangements when there are changes to the use of immovable property. • The administrative procedures for the new “super input VAT credit” regime, including the template of the declaration taxpayers would have to make for the purposes of adopting the credit.
STA Announcement [2019] No. 15 (Announcement 15)	Setting out the detailed changes made towards the VAT return filing arrangements.

Table 2 – Details of the five applicable VAT rates

No.	Sales of goods/provision of taxable activities	VAT rate
1	Supply of goods, manufacturing and repair services, leasing of tangible movable assets or importation of goods other than those stipulated in Items 2 and 5.	13%
2	Supply of transportation, postal, basic telecommunications and construction services, supply of real estate leasing of immovable assets, transfer of land use rights. The supply or importation of specific goods: i. Agricultural products such as food grains, edible vegetable oils and salt; ii. Tap water, heat, air conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, dimethyl ether, methane gas, coal products for residents; iii. Books, newspapers, magazines, audio-visual products, electronic publications; iv. Feeds, chemical fertilizers, agricultural chemicals, agricultural machinery and covering plastic-film for farming; and v. Other goods as regulated by the State Council.	9%
3	Supply of services and intangible assets, other than those stipulated in Items 1, 2 and 5.	6%
4	Collection rate applicable to specific taxpayers (e.g. small scale taxpayers) and transactions (e.g. supply of certain public transportation services).	3% (collection rate)
5	Exportation of goods and cross-border supply of services and intangible assets as prescribed by the State Council.	0%

Table 3 – Specific documentary evidence for the travel expenses

Type of documentary evidence	Amount of input VAT recoverable	Remarks
Special VAT invoice	VAT amount indicated on the special VAT invoice	
Electronic normal VAT invoice	Tax amount indicated on the invoice	
Air travel e-ticket itinerary	$(\text{fare} + \text{fuel surcharge}) \div (1 + 9\%)$	Passenger identity information needs to be shown in the documentary evidence
Railway ticket	$(\text{Ticket face value} \div (1 + 9\%)) \times 9\%$	
Road, water and other transport tickets	$(\text{Ticket face value} \div (1 + 3\%)) \times 3\%$	

they have collected specific documentary evidence for the travel expenses (see Table 3).

As set out in the State Taxation Administration (STA) Q&As, taxpayers cannot recover input VAT from taxi receipts as the identity of the passenger is not included. Input VAT can only be recovered for the employees of the taxpayers. VAT incurred on expenses for business purposes but not on the employees (e.g. flight costs paid towards the speakers' airfares for staff training) would not be recoverable.

Businesses need to review their procurement and expenses processes and procedures in order to benefit from the new input VAT rules. Large businesses typically engage travel management companies to arrange their travel. Taxpayers would need to start communicating closely with their service providers – either the transportation service providers or the travel agents/travel management companies – in order to ensure the types of documents required to support the input VAT credit can be obtained.

Businesses also need to revise their staff expense reimbursement processes in order to properly and efficiently capture the input VAT of the travel costs paid by their staff for accounting and VAT filing purposes.

Revision to the incremental excess input VAT refund treatment

PN 39 set out rules for the incremental excess input VAT refund regime which came into effect 1 April. The key features are detailed in Table 4.

PN 39 is silent as to the exact month the incremental excess input VAT refund application could be made. Following the

six-month period rule, we consider the first refund application could be made in October 2019. PN 39 is also silent whether, when, and how taxpayers can make their second application after they have successfully obtained the first refund. We expect more clarification on the procedures related to the first and subsequent applications from tax authorities before October.

In many jurisdictions which operate a VAT regime, refunds would be given to taxpayers when the amount of input VAT incurred over the VAT filing period is higher than the output VAT. However, China has been adopting a different approach by only allowing taxpayers to carry forward the excess input VAT balance to the new VAT return period. Previously, there has been limited relaxation of excess input VAT refund applications, and in 2018, the Chinese tax authorities made another attempt at widening the refund regime by enabling taxpayers in 18 sectors to apply for excess input VAT refund when certain conditions are met, as detailed in *Caishui* [2018] No. 70.

The revision to the excess input VAT refund policy is welcomed by the business community as the refund can relieve VAT cashflow stress, particularly for taxpayers who consistently have higher input than output VAT (e.g. such as a multi-phased real estate project company having sales or rental income from earlier phases of the project but continuing to incur construction costs over six months for a close-to-completed later phase). Taxpayers should review whether they could utilize their input VAT soon enough or they would need to apply the incremental excess input VAT

refund policy in order to gain VAT cashflow benefits.

Revision to the VAT return form

In light of the significant changes, the STA issued STA Announcement [2019] No. 15 (Announcement 15) to refresh the VAT return form, with changes made to the main form as well as appendices 1, 2, 3 and 4.

Announcement 15 also waived the requirement for taxpayers to complete Appendix 5 and the Tax Burden Analysis Form.

Taxpayers should study Announcement 15 and its explanatory note in detail before submitting their first VAT return after 1 May.

Conclusion

The new VAT policy should undoubtedly be welcomed by the business community. However, implementing the changes within a short window of time is going to be challenging for businesses given the VAT regulatory and business changes that are going to take place. It is advised that suitable resources be dedicated and actions planned (see Table 5) to convert their business operations in response to the changes.



Kenneth Leung
is Greater China
Indirect Tax
Leader at EY.

Table 4 – Key qualification for the incremental excess input VAT refund regime

Factor	Requirement
Qualification of taxpayers	<p>The following five criteria have to be fulfilled simultaneously:</p> <ul style="list-style-type: none"> From April 2019, the incremental excess input VAT credit must be over zero for six consecutive months or two quarters for quarterly filing, and the incremental excess input VAT at the sixth month is not lower than CNY500,000. The taxpayer's Tax Credit Rating must be Grade A or Grade B. Within the 36 months prior to applying for the excess input VAT refund, the taxpayer has not committed any fraudulent application for tax refund from: (1) excess input VAT, (2) export VAT refund, and (3) false issuance of special VAT invoice. Within the 36 months prior to applying for the refund, the tax authorities have not punished the taxpayer more than twice for tax evasion. The taxpayer may not have adopted any of the "Refund Upon Collection" or the "Collection First, Refund Later" measures.
Quantification of excess input VAT	<p>Amount of excess input VAT refund = Incremental amount of excess input VAT x 60% x Input VAT ratio (which is detailed in Article 8 of PN 39).</p>
Export enterprises	<p>Exporters of goods and suppliers of export services who have adopted the "Exempt, Credit, Refund" method could still be eligible for excess input VAT refund. However, the taxpayers' must meet all the criteria set for the excess input VAT treatment after completing the "Exempt, Credit, Refund" procedures.</p>
Administration requirements	<p>Applications should be made to the tax bureau responsible for the taxpayer at the same filing period as the VAT return.</p>

Table 5 – Actions businesses should undertake

Action item	Action plan
Re-engineer procurement and expense processes and arrangements	<ul style="list-style-type: none"> Taxpayers should study their current procurement and expense procedures in order to identify any gaps between the requirements set under the new input VAT recovery regime and the current arrangement. Negotiations on purchase prices and tax invoice issuing arrangements could be made in order to create win-win positions for all parties. Consider automating the accounts payable and expenses processes by digitizing the source voucher data. This can facilitate better input VAT management and enhance input VAT recovery.
Adjust VAT compliance process and system	<ul style="list-style-type: none"> The VAT changes have caused changes to the VAT compliance forms. Businesses should study their existing compliance process to ensure clarity regarding the data entered into the VAT return forms. New procedures should be set up for the new 10% super input VAT credit, refund of incremental excess input VAT, and input VAT credit for immovable property. Special attention should be paid by those taxpayers who have automated tax compliance tools (e.g. using robotic process automation). Changes to these automated systems would need to be made to ensure the system reflects the changes.
Review contract clauses	<ul style="list-style-type: none"> As it is expected that there will be further VAT rate simplifications in the future (e.g. from three to two VAT rates), adjustments to contractual terms should factor in future VAT changes. Taxpayers should consider whether the transaction would be VAT inclusive or exclusive and more importantly, how the contractual terms address that issue. Failing to have clear contractual terms reflecting the commercial arrangements could lead to an adverse financial outcome.

Frequently asked questions on the Institute's anti-money laundering monitoring regime

The Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AML Ordinance) has been in effect for accountants for over a year now. Since its introduction the Institute has received a number of questions on the regime. In response, the Institute has published these frequently asked questions. These FAQs will be updated over time on the Institute's website.

Q1. Does my practice need to appoint a money laundering reporting officer (MLRO) if (a) it does not have an intention to engage, by way of business, in work to prepare for or carry out specified transactions, or (b) it is an own name practice with no staff?

The Drug Trafficking (Recovery of Proceeds) (Amendment) Ordinance; Organized and Serious Crimes (Amendment) Ordinance; and United Nations (Anti-Terrorism Measures) Ordinance all have requirements to report suspicious transactions, which apply to everybody in Hong Kong. Under the law, employees may disclose their knowledge or suspicion that certain activities may relate to money laundering and terrorist financing to a person designated to receive such reports by their employer. By making appropriate disclosures to the designated person, in accordance with procedures laid down by their employer, employees are regarded as having discharged their obligations under the law. As indicated in Sections 610 and 640 of the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants (AML guidelines), practices

must appoint an MLRO as a central reference point for reporting suspicious transactions. Therefore, each practice should designate a person of sufficient seniority and authority within the practice as an MLRO in order to discharge its responsibilities. In case of a sole proprietorship or an own name practice, the sole proprietor or sole practitioner can be the MLRO but such designation should be communicated to all staff members, if any, in order to draw their awareness.

Q2. If a CPA firm conducts due diligence work or acts as a reporting accountant for a client in respect of a purchase or a sale of real estate or a business entity, would that constitute a specified transaction and require the relevant AML procedures to be carried out by the CPA firm?

Paragraph 600.2.1 of the AML guidelines provides that when practices, by way of business, prepare for or carry out for a client a transaction involving buying and selling of real estate (point (a)) or business entities (point (f)), specific AML procedures are required to be adopted. In the Institute's view, due diligence or reporting accountant work on a purchase or a sale of real estate or a business entity assists the client in preparing for those transactions, whether or not they are eventually completed. The nature of those engagements means that the CPA firm to be engaged for such work would normally be sufficiently involved to fall within the scope of paragraph 600.2.1 and hence the relevant AML procedures should apply.

Q3. An entity bought a shelf company and plans to engage a practice to change the company name of and provide secretarial services to the shelf company. Will the services to be provided be considered as falling within the scope of specified services, including services of "creating, operation or management of a legal persons or arrangements" (paragraph 600.2.1(e))/"forming corporations or other legal persons" (paragraph 600.2.2(a))?

Since the shelf company has already been created before a practice is engaged to change the company's name, the practice will not be involved in creating or forming the company. Accordingly, for the work on the change in name alone, it will not meet the definitions as set out in paragraphs 600.2.1(e) and 600.2.2(a) and therefore will not constitute a specified service. However, this position will not be the same if the practice was also previously involved, by way of business, in helping the entity to set up or acquire the shelf company as such transaction would have caught by paragraphs 600.2.1(e), 600.2.2(a) or probably 600.2.1(f) (buying and selling of business entities) and met the definition of a specified service. Depending on the scope of company secretarial services to be provided by the practice, those services may also meet the definition of other specified services as defined in paragraph 600.2. Accordingly, care should be taken to clearly define the scope of services if the services are not to be treated as specified services. Notwithstanding the above, the practice should always bear in mind



its responsibility for making a suspicious transaction report to the Joint Financial Intelligence Unit when an unusual or suspicious event is identified during the course of its work.

Q4. Paragraph 620.10.5 of the AML guidelines requires that verification of identity must be concluded within a reasonable timeframe after the establishment of business relationship. What is a “reasonable” timeframe?

Practices should determine the timeframe that is commensurate to their circumstances. Although there is no defined timeline set out in the AML guidelines, practices may make references to the guideline established by the Companies Registry on compliance with a similar provision in the relevant AML Ordinance. The Companies Registry requires a Trust or Company Service Provider licensee to suspend a business relationship with a client or customer if a verification of identity cannot be completed within 60 working days after the establishment of the business relationship; and to terminate the business relationship if the verification cannot be concluded within 120 working days after the establishment of the business relationship.

Q5. Is it advisable for a practice to adopt T01 (Example policies and procedures) from the Institute’s anti-money laundering procedures manual for accountants (AML procedures manual) without tailoring?

The example policies and procedures in the AML procedures manual only provide

general guidance on drawing up an AML/CTF policy manual. The example policies and procedures should be tailored to suit the circumstances of the practice. For example, if a practice chooses not to apply “good practice” on services other than those specified in paragraphs 600.2.1 and 600.2.2 of the AML guidelines, the practice’s AML/CTF policy manual should not state that policies and procedures regarding customer due diligence and ongoing monitoring are applied to all clients. Practices are reminded that since suspicious transaction reporting and financial sanctions (sections 640 and 650 of the AML guidelines) are mandatory regardless of the services provided, every practice should have policies and procedures on suspicious transaction reporting and financial sanctions. In a practice review, an assessment will be made on the practice’s level of compliance with its established policies and procedures and any failure of compliance will be reported as a finding.

Q6. What is the expected frequency of a periodic review of customer due diligence (CDD) information?

Other than an event-driven review, practices should perform a periodic review of all clients to ensure the CDD information remains up to date and relevant. The frequency of a periodic review is dependent on the risk assessment of clients. Clients who are either foreign politically exposed persons (PEP) or high risk domestic PEP should be subjected to an annual review (paragraph 620.12.20) as a minimum. In addition, practices should carry out an annual review of risk category of clients

(paragraph 620.10.8) and for material changes in the client’s ownership and/or activities (paragraph 620.10.7(b)). Practices are advised to set out in their AML policy manual the frequency of a periodic review and what constitutes a triggering event for a review of the CDD information held on a particular client, including a pre-existing client (i.e. a client with which the practice had a business relationship before the implementation of the AML Ordinance).



This article was contributed by the Institute’s staff. The answers provided may not give a solution that will be relevant for every practice unit as circumstances differ from case to case. Practice units must apply professional judgement in dealing with compliance issues.

TechWatch 199

The latest standards and technical developments

Local updates

Invitations to comment

The Institute is seeking comments on:

- The International Ethics Standards Board for Accountants' exposure draft, proposed revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised) by 27 May.
- The International Accounting Standards Board exposure draft on Interest Rate Benchmark Reform by 3 June.
- The International Auditing and Assurance Standards Board's discussion paper on Audits of Less Complex Entities by 12 August.

Invitation to observe meetings of the HKIISG

Register to observe meetings of the Hong Kong Insurance Implementation Support Group (HKIISG) which discusses hot topics on HKFRS 17 *Insurance Contracts*. Meeting schedule, papers and summaries can be found on the Institute's website.

Professional accountants in business

Machine learning: more science than fiction

The Association of Chartered Certified Accountants has recently published a report which offers an accessible, practical introduction to machine learning, and how it is being adopted within the accounting profession.

In addition to an overview of what it is, the report also explores issues of ethics and other concerns pertinent to the public interest.

ICAC's powers for offences other than bribery and corruption

The Independent Commission Against Corruption has wide-ranging powers to investigate other crimes when

investigating bribery and corruption. An article from ONC Lawyers' newsletter demonstrates, with reference to a case study, how the Theft Ordinance, the Crimes Ordinance and the Prevention of Bribery Ordinance may interlink and operate together to be applied by the ICAC to combat corrupt transactions that involve fraud and use of deceiving false documents.

Corporate finance

Institute comments on proposals for revising the operational model for implementing an uncertificated securities market in Hong Kong

The Institute issued a submission on 3 May responding to the proposals by Securities and Futures Commission (SFC), Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars Limited for revising the operational model for implementing an uncertificated securities market in Hong Kong, and related matters.

The Institute, in principle, supports the proposals in order to maintain Hong Kong's standing as an international capital market. At the same time, the Institute also raises questions on certain aspects of the proposals, including how full dematerialization will be implemented and the impact on traditional retail investors, used to holding their own share certificates; the length of the transition period; the initial and ongoing cost implications for investors under the new scripless system; the integrity of the system, which will give much more responsibility to share registrars; and, ultimately, whether investors will ultimately reap the benefits of the improved efficiencies of the new system.

Joint consultation of the Hong Kong Monetary Authority and the SFC to the OTC derivatives regime

On 26 April, the Hong Kong Monetary

Authority and the SFC jointly issued a consultation paper on further enhancements to the over-the-counter (OTC) derivatives regulatory regime in Hong Kong.

The regulators propose that transactions to be submitted to the Hong Kong Trade Repository for the reporting obligation would be required to be identified by unique transaction identifiers with the structure and format as set out in the technical guidance issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions.

The regulators also propose to remove 17 jurisdictions from the list of designated jurisdictions for the masking relief of the reporting obligation in view of the recent clarification by the Financial Stability Board, and to update the list of Financial Services Providers under the OTC derivatives clearing regime.

SFC's consultation conclusions on the proposed guidelines for securities margin financing activities

The SFC has published consultation conclusions on proposed guidelines for securities margin financing activities. The SFC's initiative to provide guidance on the risk management practices expected of brokers when they provide securities margin financing was generally supported by the respondents.

According to the guidelines, the maximum total margin loans-to-capital multiple brokers can adopt is five times to avoid excessive leverage. The concentration risks posed by holding individual or connected securities as collateral and by significant exposure to margin clients should also be controlled. Further, brokers are required to set prudent triggers for margin calls and strictly enforce margin call policies. Guidance is provided to help brokers set prudent haircut percentages for

securities acceptable as collateral and conduct stress testing to assess the financial impact of their securities margin financing activities. A summary of the consultation conclusions is set out in the press release.

The guidelines were gazetted on 4 April and will take effect on 4 October.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- The Inland Revenue Department (IRD) has issued the Departmental Interpretation and Practice Notes (DIPN) No. 5 (Revised) on profits tax deductions for various kinds of expenditure. The IRD has also issued DIPN No. 55 to explain the eligibility for 100 percent tax deductions, or enhanced deductions of up to 300 percent, on research and development expenditure.
- Issues of tax returns for 2018/19.
- Legislative Council questions on regulation of virtual asset investment activities.
- The IRD provided further clarifications on the completion of supplementary form S1 Person electing for two-tiered profits tax rates of the 2018/19 profit tax return.
- Stamp Duty statistics (March 2019).

Institute hosts GAA tax directors

The Institute hosted a three-day meeting of Global Accounting Alliance (GAA) tax heads in Hong Kong and Beijing during 15-17 April.

During that time, the tax heads were briefed on key issues in Hong Kong, cross-border and Mainland tax. They also held meetings with Legislative Council Accountancy functional constituency representative, Kenneth Leung, and the Belt and Road Office of the Hong Kong SAR Government, among others.

The scope of work of the GAA Tax Director Group includes:

- Coordinating and learning from shared experiences
- Sharing and disseminating best practices
- Providing advocacy on significant issues of common interest and concern

The group is one of the only tax-dedicated bodies providing a global voice on tax for the accounting profession. It adopts a global perspective to ensure that the work done in the member bodies' individual countries is better informed and better focused.

The GAA itself was formed in November 2005 and is an alliance of 10 leading professional accounting bodies in significant capital markets. It was created to promote quality services, share information and collaborate on important international issues. The GAA works with national regulators, governments and stakeholders, through member-body collaboration, articulation of consensus views, and working in collaboration where possible with other international bodies, especially the International Federation of Accountants. The GAA represents a total of close to one million accountants in over 180 countries around the globe.

You can read more about the views of the attendees on global tax in last month's *A Plus*.

Legislation and other initiatives

Anti-money laundering notices

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.

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), which indicates ML/TF risks and vulnerabilities in the Hong Kong market.



Please refer to the full version of TechWatch 199, available as a PDF on the Institute's website: www.hkicpa.org.hk

After hours

Book review Life and everything Let's get fiscal

Book review



A CHAIN OF TRUST

Title: *The Truth Machine: The Blockchain and the Future of Everything*
Authors: Michael J. Casey and Paul Vigna Publisher: Harper Collins

Unlike the populations of stable societies, with institutions and records, the displaced and the disoriented in a Syrian refugee camp in Jordan can only carry their immediate necessities, not documents accumulated over lifetimes. Bank accounts, birth certificates, records of education and employment and other data that peaceful countries take for granted are often lost to the winds.

The United Nations High Commissioner for Refugees camp at Azraq, a small town in central-eastern Jordan, home to more than 30,000 displaced Syrians, is “now the scene of a radical experiment in new models of community governance, institution-building, and the management of resources,” Michael J. Casey and Paul Vigna of *The Wall Street Journal* write in *The Truth Machine: The Blockchain and the Future of Everything*. At the heart of that effort is blockchain technology, the decentralized ledger-keeping system that

promises a more reliable, immediate way to trace transactions.

The World Food Programme, a UN agency that feeds 80 million people worldwide, is putting 10,000 refugees through a pilot that uses this system to better coordinate food distribution, attempting to ensure that everyone gets their fair share of food.

Such issues of trust and verification have permeated human society from the beginning. The book takes a broad sweep of historical attitudes to such issues, from Babylon to the Bible, to the birth of bookkeeping at the pen of Luca Pacioli, who wrote *Summa de arithmetica, geometria, proportioni et proportionalita*, the first comprehensive accounting manual.

After this early discourse through Western civilization, the blockchain story becomes firmly established in Asia. Bitcoin was launched in 2009 by a person or persons using the pseudonym Satoshi

Nakamoto, who might or might not be Japanese. “Blockchain,” the authors write, “promised a new way around processes that had become at best controlled by middlemen who insisted on taking their cut of every transaction, and at worst, the cause of some man-made economic disasters.”

Yet bitcoin was beset by its own issues, becoming synonymous with illegal transactions – notably drugs and guns – and massive volatility, falling from nearly US\$20,000 per bitcoin in December 2017 to less than US\$3,500 in December 2018. Many countries cracked down on cryptocurrency, arguing that initial coin offerings (ICOs), a cryptocurrency product, were unlicensed securities. In September 2017, Chinese regulators banned ICOs altogether.

Yet China is at the forefront of the underlying blockchain technology, with President Xi Jinping declaring it a national priority and Chinese researchers filing

Author interview: Michael J. Casey

the most blockchain-related patents. Foxconn, the electronics manufacturer, incorporates blockchain into its supply chain management and Tsinghua University in Beijing works with Walmart and IBM to follow the movement of pork in China via blockchain.

The authors note the impressive ambitions of the Hong Kong-based Belt and Road Blockchain Consortium, which includes companies like KPMG, HSBC and Li & Fung. Founder Pindar Wong sees China's Belt and Road initiative as a "complex set of supply relationships across 65 different jurisdictions with varying degrees of trust." That requires a "distributed information-sharing paradigm if it is to work," he tells the authors, citing an opportunity for blockchain technologies to function as an international governance system.

But is blockchain as significant as Casey and Vigna suggest in their title? Does it really augur for the future of everything? They argue that the "blockchain could represent the very first time that human society has a system for creating an unbroken historical record." Power "stems from control over our information. This is as important as ever now," they add, "with a U.S. president who believes he alone can define the boundaries of what constitutes fake news and publishes dubious official information that his minders describe as alternative facts."

Blockchain's potential to subvert authority has already been demonstrated, the authors note. "It might surprise you to read this, but the most subversive, controversial, anti-authoritarian idea in the world of finance, an idea so powerful every government on the planet is trying to figure out whether to co-opt it or outlaw it, the dream of the most fervent libertarian, dark-web denizens, is a ledger."

Michael J. Casey said he first encountered bitcoin and, by extension, the concept of a blockchain only in 2013. "I was writing columns for *The Wall Street Journal* about currencies at the time and this new digital currency concept intrigued me. I didn't really get the concept, but was curious. I wrote a rather ordinary column about it, mostly warning that it was likely a dangerous investment for people."

The turnaround for Casey was his six years in Argentina. "I had written extensively about the role that untrusted record-keeping and broken institutions play in the perpetuation of poverty and economic failure in Latin America and it dawned on me that bitcoin, or at least the core idea behind it, could be a solution."

Casey separates the "core idea" – blockchain – from the flurry of ICOs and other peripheral products that have sprung from that idea. "I agree that blockchain has become a bit of a buzzword," he says. "We need a lot more clarity about what it means and what constitutes a decentralized, permissionless system – the real benchmark by which any project that touts itself to be a blockchain should be judged."

Bitcoin, he says, is the closest approximation of that ideal as distinct from "ICO's claiming to be decentralized and private, permissioned ledger systems claiming to be a blockchain. In those cases, he says, "the user is at risk

of being scammed because, in both cases, someone is in control of information to which they are not privy."

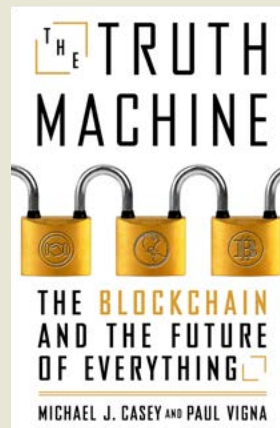
Blockchain has ramifications for the future of the global financial system, says Casey. But the form, he argues, will be the key to its success. "The approach that China is taking to it, investing heavily in research and development into private distributed ledgers but rejecting and constraining the pure, permissionless "crypto" model, tells us much about where the world is headed."

Beijing's model, he says, is far from ideal, resembling China's great Internet firewall. "At worst, it will

foster monopolies of economic power – whether state-run, or private-run-but-state-endorsed – with an unchecked power to determine who gets to transact and who doesn't."

Casey has equally little confidence in the ability or willingness of the United States to foster cryptocurrencies.

"The problem is that U.S. financial regulatory policy is captured by Wall Street, which in turn, is a function of the dollar's power as the world's reserve currency. For U.S. policymaking, it's like a drug, because to embrace a more constructive open, monetary system entails giving up on an addiction to all the cheap inflows of money that the dollar's status generates. History tells us that the dollar will do as all past reserve currencies have done and fall from its pedestal."



Life and everything

As recommended by *A Plus* editors

Theatre



MATILDA THE MUSICAL

The award-winning musical *Matilda* will make its debut in Hong Kong this September. An adaptation of one of author Roald Dahl's most famous books, the play tells the classic story of five-year-old Matilda, a girl whose sharp mind and vivid imagination leads her to resist challenges, landing her in trouble with her headmaster, but earning favour from her class teacher. Performed by an incredible cast of young actors, the musical has won more than 86 international awards, including 16 for best musical.

Dates: 20 September - 6 October
Address: Lyric Theatre, The Hong Kong Academy for Performing Arts, Wan Chai
Prices: From HK\$445
Tickets: www.hkticketing.com

Watch



COSMIC CONVERSATION

University of Manchester's Professor of Particle Physics Brian Cox will be coming to Hong Kong as part of his "Universal World Tour 2019." TV personality Cox will present to science enthusiasts the latest in the world of astronomy and cosmology such as the latest missions to planets using state of the art graphics and imagery from ground-based telescopes and space probes. Using an ultra-high-resolution LED screen, Cox will also bring viewers along a journey inside a black hole. He will be joined by co-host of his radio show *The Infinite Monkey Cage* and award-winning comedian Robin Ince for an audience Q&A.

Date and time: 5 June, 7:30 p.m.
Address: Star Hall, Kowloon Bay International Trade and Exhibition Centre
Prices: HK\$550, HK\$750, HK\$995, HK\$1,250.
Tickets: www.hkticketing.com

Eat

A JAPANESE TWIST

Located in the heart of Central is Zuma. The restaurant serves modern Japanese cuisine in its spacious, two-storey space, which includes a main dining room, upstairs bar area, outdoor terrace, open sushi counter and robata grill. Starters include seabass with yuzu, truffle oil and salmon roe or Japanese wagyu tataki with truffle ponzu. Scrumptious entrées to try include the lobster tempura with ponzu and wasabi sauce and spicy beef tenderloin with sesame, red chili and sweet soy. Its famous robata grill offers diners a chance to feast on some of the freshest seafood such as Hokkaido scallops in umeboshi butter, and salmon teriyaki fillet with pickled cucumbers.



Spicy beef tenderloin with sesame

Address: Levels 5 and 6, Landmark, 15 Queen's Road Central
 Opening hours: Brunch from 11:00 a.m. - 3:00 p.m. (Sat-Sun), lunch from 12:00 p.m. - 2:30 p.m (Mon-Fri), dinner from 6:30 p.m. - 10:30 p.m. (Mon-Sat) and 6:30 p.m. - 9:30 p.m. (Sun)
 Phone: 3657-6388



Dates: 14-16 June
 Venue: Central Harbourfront
 Price: Free

See

SOAK UP THE FUN

The annual Hong Kong Dragon Boat Carnival makes its way to the city again next month, with over 4,000 rowers competing for a total of 24 championships. Spanning three days, visitors will witness intense racing and be part of an exciting, jubilant atmosphere, fun for the whole family. Grab a bite from the many food trucks present, or head to the Street Food Gala to savour local and international cuisine. This year's carnival will also include a man-made beach with a splash area, as well as an artisanal market showcasing the works of local artists and craftspeople.



You have all the time in the world

Hong Kong's humorist on why you are never too old, or too young, to follow your dreams – and become an accountant

Your columnist managed to sail through dismal school grades by claiming to be “a late developer.” I have now used the same excuse for several decades and it is starting to sound weak – especially since my children use it too.

“Sorry about the bad grades again, but I’m a late developer like Dad,” they say, pointing their heads at me.

“My day will come,” I respond, nodding. “No point rushing things.”

The reason for bringing this up is that a reader sent me a report about a boy in the United Kingdom aged 15 described as “the country’s youngest accountant.”

Ranveer Singh Sandhu is “a teenager who started his own accounting business when he was only 12,” according to a local London newspaper called *The Croydon Advertiser*.

I read the article carefully to see what accounting qualifications young Ranveer has, but the answer seemed to be none. His parents call him an accountant because he set up Excel-style software to write down his income and that of his friends.

Pah! “That doesn’t count,” I replied to the reader. I could do that.

But I remember there was a whole spate of “youngest accountant ever” stories in the press in 2015, and those guys did have actual accounting qualifications.

A boy called Ramkumar Raman from India completed a proper accounting exam aged 18, and a girl named Aqsa Majeed Memon from Pakistan, also 18, was described

in the press as the “youngest Chartered Accountant in the world.”

Most of that type of story concerns Asians (not surprisingly, as we have tiger moms), but the same year there was a similar tale from the United States.

“His parents call him an accountant because he set up Excel-style software to write down his income and that of his friends.”

Belicia Cespedes passed all four sections of the CPA exam in California at the age of 17. The articles about her said that she became an active, voting member of the American Institute of CPAs, which must have been interesting. “I’d like to move a motion that we do all meetings by Snapchat and feature Justin Bieber as keynote speaker at the annual conference.”

Of course there are other people, like Mozart, who did incredible things at an extremely young age, but they sadly tend to go into fields other than accounting.

The Guinness Book of Records tells us South Korea’s Kim Ung-yong got his PhD aged 15 and went into rocket science, presumably to fulfill the cliché that it’s the hardest discipline since all others are described as “hardly rocket science.”

Perhaps the most extreme case of early achievement is that of a pregnant U.K. woman named Amanda Collins who entered an ultrasound scan of her fetus into a baby beauty contest. It even got one of the prizes, although they waited until it was born to hand it over.

I think I can confidently say that no fetus is ever going to be a working accountant – they would struggle with the paperwork involved and the whole dark suit/white shirt thing is pretty much de rigueur, right?

Anyway, the whole “youngest-ever” thing is annoying. Accounting attracts older people, as it is popular as a second career – this column even featured a king in Africa who abdicated to become an accountant.

So those of us who are late bloomers, don’t despair.

Novelist Jean Rhys wrote her first bestseller at 76, and Indian polymath Nirad Chaudhuri wrote a book at the age of 100.

Fame and fortune awaits. Your day will come. No need to rush.



Nury Vittachi

is a bestselling author, columnist, lecturer and TV host. He wrote three story-books for the Institute, *May Moon* and *the Secrets of the CPAs*, *May Moon Rescues the World Economy* and *May Moon’s Book of Choices*



Success symbol



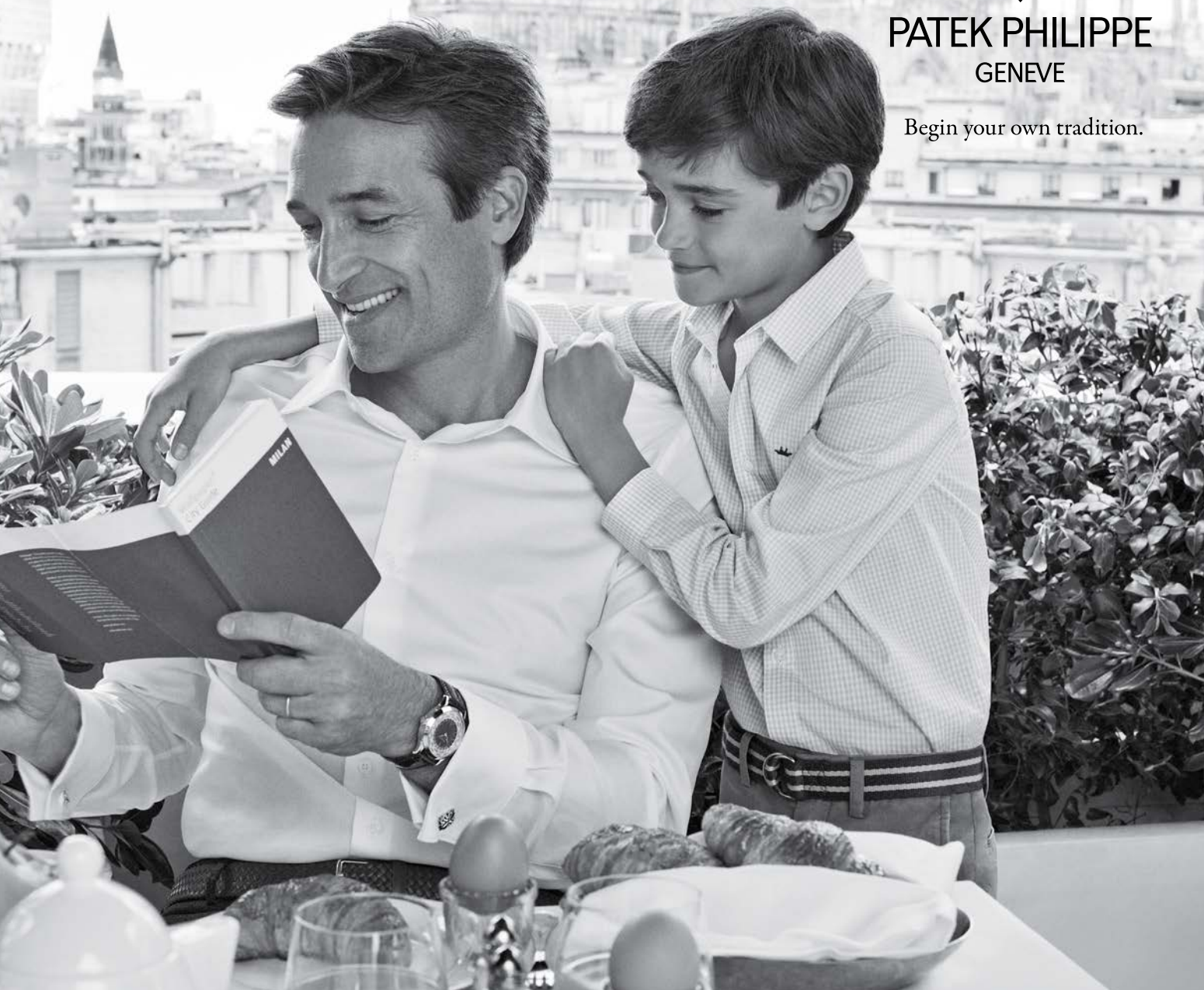
Success ingredient

There are many ways to salute success. In business, there's one sure step you can take to be a winner. With a member of the Hong Kong Institute of CPAs on your team, you'll always be going for gold.



PATEK PHILIPPE
GENEVE

Begin your own tradition.



You never actually own
a Patek Philippe.

You merely look after it for
the next generation.



World Time Ref. 5230G

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