



**DRIVING BUSINESS SUCCESS**

*Issue 6 Volume 16 June 2020*

**PLUS:**

**CORPORATE GOVERNANCE**

Exploring the best practices of public sector entities

**CHINA TAX**

A discussion on navigating China's tax system

**ACCOUNTANT PLUS**

Simon Lee, Senior Lecturer at the Chinese University of Hong Kong

---

Charles Tilley, Chief Executive Officer at the International Integrated Reporting Council, is focused on intensifying multi-capital reporting

# TELLING A BETTER STORY



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

ISSN 1815-3380



9 771815 338008

HK\$70.00





# The 71<sup>st</sup> National Day Celebration Dinner

Date:

Friday, 25 September 2020

Time:

6:30 p.m. - 10:00 p.m.

Venue:

Ballroom of JW Marriott Hotel Hong Kong



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



香港華人  
會計師公會  
SCAACPA



Book your seat now!



**“In this age of Accounting Plus, integrity and professional ethics are among the most important qualities for a professional accountant to have.”**



Dear members,

When thinking about what to include in my message this month, paying tribute to Past President Edward Chow, JP was the first thing on my mind. Ever since his sudden passing away on 1 June, every time I entered into the Institute's Wu Chung House office premises I thought about Edward, who had the foresight and was instrumental in its acquisition during his presidency in 2005. This is his largest legacy to our members. Those members who regularly attend the Institute's annual general meetings will understand and share my feeling that these meetings will lose a big attraction without Edward's presence and his questions. Edward's invaluable contributions to the accounting profession will never be forgotten and he will be deeply missed by all of us.

At the end of my message last month I mentioned that we at the Institute endeavour to support our members' preparation for the new normal of a weak economy and restrictions on travel. I am pleased to announce that the Council has determined to introduce a range of one-off concessions for the 2021 membership renewal, which covers all existing members, firms, corporate practices and students. The concessions, an annual fee waiver to a maximum of one partner per firm or one director per corporate practice, waiving the capital levy for all members and students, a reduction of student annual fee, and offering more free or subsidized continuing professional development events in the year ahead, are other ways that the Institute will help its members during the economic recovery.

I had the honour of being interviewed

by *Recruit* and Metro Radio this month.

During my interview with *Recruit*, I spoke about how becoming an accountant gave me the skills I needed to succeed and reach my goals. I hope my experiences will be read by their young readers and help to inspire them to handle adversity they are facing as a consequence of the COVID-19 pandemic and Hong Kong's challenging year in general. I also explained how the Qualification Programme (QP) had been upgraded, and that the new QP offers its students the training they needed for a successful career.

In this age of Accounting Plus, integrity and professional ethics are among the most important qualities for a professional accountant to have. Accountants have to analyse data, and we cannot just listen to what people say. We are at our best when we are independent and critical, and when problems arise, cooperation is needed to find solutions together. These are the foundations we build successful careers upon as trusted advisors and financial leaders, and are also the foundations for how we build a successful society.

On the Metro Radio show *HK Cheer Up*, I spoke about the resilience of our auditors, who were able to meet audit deadlines, even though many of them were not able to travel to undertake their audits. I reiterated how the Institute had been regularly liaising with the regulators, including the Securities and Futures Commission and the Stock Exchange of Hong Kong, to advocate the importance of flexibility while dealing

with the pandemic.

During my interviews with both outlets, I spoke about how the COVID-19 pandemic has posed unprecedented challenges to businesses, and forced all of us – and particularly the accounting practices – to move out of our own comfort zones and review our operation routines. I believe that this recent experience can help the profession to remodel and fine-tune the entire modes of operation when the pandemic is over. This will help us to better achieve work-life balance and increase the attractiveness of the profession to future generations.

With that goal in mind, I am pleased that the Institute has released its Strategic Plan 2020-2022. Titled *Building Trust in Our Profession*, the plan sets out strategic objectives for the Institute that will help to prepare the profession for the challenges ahead. The plan includes key action items that the Institute will develop and implement over the next three years. I urge members to read the plan, to understand how the Institute will develop.

Registration for the government's HK\$10,000 Cash Payout Scheme has started, and I understand that the first tranche of payments for electronic registrations submitted through banks by 30 June will be deposited from around 8 July. I appeal to you all to join together to boost local consumption. This could help improve our city's retail and restaurant businesses, the income of smaller enterprises and employees, and save our ailing economy.

**Johnson Kong**  
President



## 08

### Leading by example

Celebrating the 20th anniversary of the Institute's Best Corporate Governance Awards, we look into why public sector organizations should aim to maintain transparency in their disclosures, and why values are crucial in upholding good corporate governance



#### NEWS

- 01 President's message
- 04 Institute news
- 06 Business news

#### FEATURES

- 08 **Leading by example**  
A look at how the Best Corporate Governance Awards have led to better disclosures by public sector organizations
- 14 **Second opinions**  
What lessons should be taken by the workplace from the coronavirus pandemic?
- 16 **Leadership: Charles Tilley**  
The Chief Executive Officer of the IIRC on its revision of the *International <IR> Framework*
- 23 **Meet the speaker**  
What to expect from an e-learning webinar on the Annual Taxation Conference 2020
- 24 **Navigating China's tax system**  
Experts discuss tax strategies at the China Taxation Conference

- 30 **Accountant Plus: Simon Lee**  
A Senior Lecturer at the Chinese University of Hong Kong on how he teaches accounting, and how to carefully manage one's finances in tough times
- 36 **How to**  
Agnes Lo, a Gallup Strengths Coach and corporate trainer, on how to build a more flexible work culture
- 37 **Thought leadership: How CPAs reacted to the COVID-19 coronavirus outbreak**  
Highlights from the Institute's COVID-19 survey report

#### SOURCE

- 38 **Risk-based supervision of accounting professionals concerning AML/CTF compliance**  
A look at the developments in the Institute's risk-based AML/CTF supervisory plan
- 40 **Taxation of charities**  
A look at the IRD's revised tax guide for charitable institutions



# 24

## Navigating China's tax system



# 30 Always thinking ahead



Simon Lee, Senior Lecturer and Co-director, International Business and Chinese Enterprise Programme at the Chinese University of Hong Kong, on nurturing the future of the profession and the importance of staying prudent

- 43 **How to maintain an effective risk management system amid the COVID-19 crisis**  
A look at how enterprises can adopt contingency plans to tackle the coronavirus

## 44 Technical news

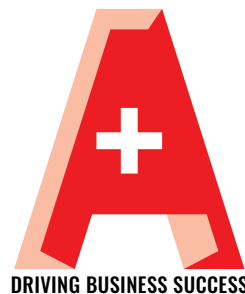
## WORK-LIFE BALANCE

- 46 **Cooked to perfection**  
Three CPA home cooks share their secrets to cooking a delicious meal

- 52 **Young member of the month**  
Hyde Tse, Assistant Finance Manager at A.S. Watson Group

- 54 **Leisure Plus**  
Spotlight on dream holidays; what members are currently reading and listening to

- 56 **Let's get fiscal**  
Don't ever leave your money lying around, says Nury Vittachi



DRIVING BUSINESS SUCCESS

## About our name

A Plus stands for Accounting Plus. It represents a profession that is rich in career options, stays relevant amid rapid changes, and adds value to business. This magazine strives to present the global mindset and varied expertise of Institute members – Accountants Plus.



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

President Johnson Kong

Vice Presidents Lam Chi Yuen, Nelson,  
Fong Wan Huen, Loretta

Chief Executive and Registrar Margaret W. S. Chan

Head of Corporate Communications  
and Member Services Rachel So

Editorial Manager Paul Smith

Editorial Coordinator Maggie Tam

## Office Address

37/F, Wu Chung House, 213 Queen's Road East,  
Wanchai, Hong Kong  
Tel: (852) 2287-7228 Fax: (852) 2865-6603

## Member and Student Services Counter

27/F, Wu Chung House, 213 Queen's Road East,  
Wanchai, Hong Kong  
Website: [www.hkicpa.org.hk](http://www.hkicpa.org.hk)  
Email: [hkicpa@hkicpa.org.hk](mailto:hkicpa@hkicpa.org.hk)



Editor Gerry Ho  
Email: [gerry.ho@mandl.asia](mailto:gerry.ho@mandl.asia)

Copy Editor Jemelyn Yadao

Junior Copy Editor Jeremy Chan

Contributors Nicky Burrridge, Eric Chiang and  
Paul Smith

## Registered Office

2/F Wang Kee Building, 252 Hennessy Road,  
Wanchai, Hong Kong

## Advertising enquiries

Advertising Director Derek Tsang  
Email: [dereksang@mandl.asia](mailto:dereksang@mandl.asia)

A Plus is the official magazine of the Hong Kong Institute of Certified Public Accountants. The Institute retains copyright in all material published in the magazine. No part of this magazine may be reproduced without the permission of the Institute. The views expressed in the magazine are not necessarily shared by the Institute or the publisher. The Institute, the publisher and authors accept no responsibilities for loss resulting from any person acting, or refraining from acting, because of views expressed or advertisements appearing in the magazine.

© Hong Kong Institute of Certified Public Accountants  
June 2020. Print run: 7,310 copies  
The digital version is distributed to all 46,002 members,  
19,204 students of the Institute and 2,358 business  
stakeholders every month.



# NEWS

Institute news Business news

## Remembering Edward Chow, JP



The sudden passing of Edward Chow, JP, Past President of the Institute, was a shock to the community. Whether as President of the Institute, Council member, Chairman of the Professional Accountants in Business (PAIB) Committee and the Corporate Governance Committee, Deputy Chair of the Ethics Committee and the Mainland Affairs Committee, or serving on the International Federation of Accountants' PAIB Committee, in everything Edward did he brought his formidable energy and wisdom in realizing his vision of promoting the interests of PAIBs and

corporate governance.

Edward was first elected to Council in 1997, and served as vice-president in 2002, and 2004, before becoming president in 2005. He had the foresight and was instrumental in the acquisition of the Institute's Wu Chung House office premises. He also spearheaded the Fifth Long Range Plan Task Force and played a leading role in setting up of the Best Corporate Governance Disclosure Awards, which went on to become the Best Corporate Governance Awards.

### Strategic Plan 2020-2022

The Institute recently released its Strategic Plan 2020-2022. Titled *Building Trust in Our Profession*, the plan sets out its vision, strategic objectives and related initiatives. The plan is a result of collaborative efforts from Council and committee members, management and many members who have provided their views. The plan can be found on the Institute's website.

### COVID-19 survey report

The Institute conducted a survey of executives and senior- and middle-management level members in business and practice, about the impact on their organizations of the COVID-19 pandemic. The survey investigates how the pandemic posed challenges to the accounting profession, how it changed how organizations operate, and the

impact on the finance function. The respondents also discussed the support they need from the Institute. Read more about the survey in this month's thought leadership on page 37.

### Members-Help-Members sharing session

At the first Members-Help-Members sharing session on 10 July, the Institute's Small and Medium Practices Committee's Working Group on Technical Issues will provide their insights and comments to the technical enquiries received from small and medium practices. Join them to hear on the topics including accounting and financial reporting, auditing and assurance, ethics and regulation, taxation and more.

### ICAEW membership for younger members offer

The Institute of Chartered Accountants in England and Wales (ICAEW) is inviting Institute members who are graduates of the Qualification Programme and who joined the Institute after 2011 to apply for ICAEW membership at a special rate. Find out more at [icaew.com/8reasons](https://www.icaew.com/8reasons).

### Council meeting minutes

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

## Resolution by Agreement

**Li Wing Sum, Steven, CPA (practising), Tong Yat Hung, CPA (practising) and Cheng & Cheng Limited**

**Complaint:** Failure or neglect by Li and Cheng & Cheng to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 300 *Planning an Audit of Financial Statements*, HKSA 330 *The Auditor's Responses to Assessed*

*Risks*, HKSA 500 *Audit Evidence*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, HKSA 620 *Using the Work of an Auditor's Expert* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by Tong to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Cheng & Cheng was the auditor which expressed an unmodified auditor's opinion on the consolidated financial statements of Natural Dairy (NZ) Holdings Limited, a Hong Kong-listed company and its subsidiaries (collectively, group) for the year ended 31 May 2012.



Li was the engagement director and Tong was the engagement quality control reviewer.

In 2010, the company acquired an equity interest in a foreign company which held several dairy farms in New Zealand. Consideration for the investment was settled with convertible notes issued by the company. Subsequently, the local authority in New Zealand refused the company's application for retrospective consent for the acquisition. Following this, in the 2011/12 fiscal year, the group changed its business model to operating a dairy business on leased farmlands, amending the terms of the consideration, and appointing a manager for the dairy operations.

In their audit, the respondents failed to perform sufficient appropriate procedures to address the risks of material misstatement associated with the investment, and assess the impact of the changed business model on the ownership and valuation of the investment. In addition, the respondents failed to obtain adequate evidence of the valuations in relation to the investment and convertible notes issued pursuant to the amended terms of acquisition, and the appropriate accounting treatment of securities issued in consideration for the manager's services.

Further, there were deficiencies in the procedures carried out by the respondents to verify the group's sales revenue and assess possible impairment of the company's interests in subsidiaries.

**Regulatory action:** In lieu of further proceedings, the Council concluded the following action should resolve the complaint:

1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards; and
2. They be reprimanded; and
3. Each of the respondents pay an administrative penalty of HK\$50,000 and they jointly pay costs of the Institute and the Financial Reporting Council (FRC) totalling HK\$53,078.

## Disciplinary finding

**Yuen Suk Ching, CPA and Leung Tai Keung, CPA**

**Complaint:** Failure or neglect by Yuen to observe, maintain or otherwise apply HKSA 200 *Objective and General Principles Governing an Audit of Financial Statements*, HKSA 230 *Audit Documentation*, HKSA 240 *The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statements*, HKSA 300 *Planning an Audit of Financial Statements*, HKSA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, HKSA 500 *Audit Evidence*, HKSA 520 *Analytical Procedures*, HKSA 550 *Related Parties* and HKSA 700 *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*. Failure or neglect by Leung to observe, maintain or otherwise apply HKSA 220 *Quality Control for Audits of Historical Financial Information* and HKSA 230. Further, Yuen and Leung were guilty of professional misconduct.

Yuen and Leung were partners of HLM & Co., a firm

which is now de-registered. The firm expressed unmodified auditor's opinions on the consolidated financial statements of Blue Spa Holdings Limited (currently known as SuperRobotics Limited), a Hong Kong-listed company, and its subsidiaries (collectively, group) for the years ended 30 June 2008 to 2010. Yuen was the engagement partner and Leung was the engagement quality control reviewer of the audits.

The Institute received a referral from the FRC about audit irregularities. There were numerous unusual factors which indicated a heightened risk of irregularity. The risk indicators included the following:

- The group had significant amounts of prepayments, and these had increased significantly over the three years. Some amounts were prepaid long before the goods bought were delivered;
- Prepayments to the suppliers were made through a major customer by cash cheques;
- The group's revenue relied heavily on sales to the major customer, and some receivables were long outstanding;
- Receivables from the major customer were settled in cash received from certain former directors of the company and could not match with individual sales invoices; and
- Control over revenue recognition depended on only a few key management personnel.

The respondents failed to conduct their audits with an attitude of professional scepticism. This led to their failure to adequately plan the audits and design appropriate procedures to address heightened risks, including the risk of material misstatement due to fraud in revenue recognition. In turn, the respondents failed to perform and document sufficient, appropriate audit procedures on the nature of the prepayments, identities of the major customer and suppliers, existence of sales recorded and recoverability of receivables.

The respondents also failed to update the audit strategy and revise the audit plan upon having significant concerns about being unable to confirm that prepayments had been received by the suppliers or purchased goods had been received by the company. Further, the respondents failed to appropriately evaluate whether the evidence obtained on the prepayments, sales and receivables would support their unmodified opinion on the financial statements.

**Decisions and reasons:** The practising certificate of Yuen was cancelled, with no issuance of practising certificate to her for 36 months, effective 4 June 2020. In addition, Leung was reprimanded and ordered to pay a penalty of HK\$100,000. Further, Yuen and Leung were ordered to jointly pay HK\$350,000 towards costs of the Institute and the FRC. When making its decision, the Disciplinary Committee took into account the serious deficiencies in the audit work performed and that the respondents' disciplinary records showed they had persistently failed to comply with professional standards issued by the Institute.

Details of the Resolution by Agreement and disciplinary finding are available at the Institute's website.

## BANKRUPTCY FILINGS IN HONG KONG HIT 17-YEAR HIGH

There were 2,079 petitions for bankruptcy in Hong Kong in May, according to figures released by the Official Receiver's Office on 19 June. The number of petitions is the highest since 2003 as the city's businesses continue to face the impact of the COVID-19 pandemic and the damage caused by the social unrest of 2019. The number of bankruptcy filings for January to May stood at 3,605, 12.4 percent higher compared to the first five months of 2019, while the number of compulsory winding-up filings was 68 in May, the highest since 2009. The city's economy fell by 8.9 percent in the first quarter compared to the same period last year, and posted the third straight quarter of year-on-year contractions.



## PWC AUSTRALIA SLASHES 400 JOBS

PwC in Australia confirmed that it is cutting 400 jobs from its consulting and advisory business as the firm seeks to slash costs amid a revenue downturn brought about by the pandemic. The news, revealed on 17 June by *The Australian Financial Review*, came after PwC Australia's Chief Executive Officer Tom Seymour informed PwC of the changes in a firm-wide video call. The layoffs are contentious, as it follows the firm's "reduced working week programme" earlier announced in April, which forced employees to cut back their working hours as a way to protect jobs. However, declining revenues from its consulting services as a result of clients delaying or cancelling projects amid the pandemic has led the firm to its decision. "We do not underestimate the impact this has on our people and we will work through this process as thoroughly and quickly as possible to bring our people certainty," said Seymour in an interview.

## HONG KONG OFFICE VACANCY RATE HITS

# 8.5%

Hong Kong's office vacancy rate has soared to 8.5 percent, its highest in more than a decade, as more businesses impacted by the COVID-19 pandemic vacate premises. Over one million square feet of office space has been left vacant in Central's business district since May, with more companies expected to bail on their leases, according to market data provider Savvi. Office landlords are also facing more pressure to cut rents to retain tenants. However, cheaper rents may not be enough to lure tenants, reported the *South China Morning Post*, as 2019's social unrest, this year's pandemic, coupled with the United States-China trade war, have all added to uncertainty for the city.

## HEAD OF SFC TO STAY ON FOR THREE MORE YEARS

The Chief Executive of the Securities and Futures Commission (SFC), Ashley Alder, has been reappointed for a third term. Alder, who was planning to step down from his role as head of the regulator in September, will remain at the SFC for an additional three years. In a statement issued in May, Alder said he is eager to guide the city's financial system through the coronavirus pandemic and ensure it "functions reliably and with integrity throughout a period of exceptional stress." His last-minute reappointment came as a surprise to rank-and-file and senior officials at the SFC as the commission had already begun searching for his successor. Many staff members and investors expected Alder's long-time deputy and Executive Director of the SFC, Julia Leung, to take his place.



## HYGEIA HEALTHCARE TO RAISE UPWARDS OF HK\$2 BILLION AFTER LISTING

Hygeia Healthcare, Mainland China's largest oncology healthcare group, could raise as much as HK\$2.2 billion after obtaining commitments from nine cornerstone investors. The Shanghai-based provider of radiotherapy services is expected to raise that amount by selling 120 million shares at HK\$17 to HK\$18.50 each. According to the group's listing prospectus issued on 16 June, the nine investors have offered to subscribe for HK\$1.1 billion worth of stock. Based on interest shown by other institutional investors, the international placement tranche is expected to be oversubscribed by several times. The group's decision to list comes amid more listings by Mainland Chinese healthcare companies in Hong Kong. Kangji Medical, a Mainland Chinese provider of minimally invasive surgical instruments, attracted upwards of HK\$3.1 billion before its listing on the Hong Kong stock exchange this month.

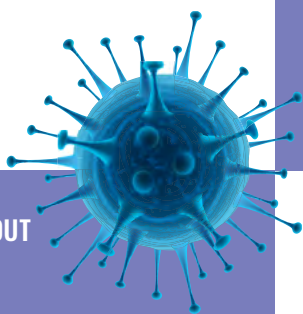


## HONG KONG GOVERNMENT TO BAIL OUT CATHAY PACIFIC WITH HK\$39 BILLION

The Hong Kong government announced on 9 June its plans to bail out troubled flag carrier Cathay Pacific Airways with HK\$39 billion in a bid to save the city's aviation industry, which has been battered by the coronavirus pandemic. In exchange, the government will take a 6.08 percent stake in the airline, which dominates more than half of passenger traffic and carries almost 40 percent of cargo in Hong Kong. The move aims to strengthen the city's long-term economic development, according to Financial Secretary Paul Chan, who views the airline's potential collapse as a fundamental threat to its aviation sector. "If this challenge is not properly addressed, it would harm Hong Kong's international aviation hub status, and adversely impact other economic activities, to the detriment of the overall interest of Hong Kong," Chan said.

## SOFTBANK ANNOUNCES US\$100 MILLION FUND FOR PEOPLE OF COLOUR

SoftBank Group Corp is launching a US\$100 million fund to invest in companies led by founders and entrepreneurs of colour, according to an internal memo from SoftBank's Chief Operating Officer Marcelo Claure. "Only by acknowledging and acting on racism – even the most subtle forms of it – can we hope to eradicate it. Otherwise, it thrives in silence," Claure wrote in the memo. Announced on 3 June, the fund is part of the Japanese multinational conglomerate's plans to improve diversity and will invest in entrepreneurs "from communities that face systemic disadvantages in building that scaling their businesses." The announcement came amid protests that have taken place across the U.S. and cities around the world, triggered by the death of George Floyd, an African-American killed during his arrest.



## U.S. CFOS MOST CONCERNED ABOUT SECOND WAVE OF COVID-19

Chief financial officers in the U.S. are most worried about the possibility of the impact brought on by a second wave of COVID-19 infections on their business. This is according to PwC's sixth *COVID-19 CFO Pulse Survey*, released on 15 June. The study surveyed 330 CFOs and finance leaders across the U.S. this month and found that 59 percent are most anxious about a second round of coronavirus infections. Despite 54 percent fearing the impact of an economic downturn and expecting revenues to further decrease, their outlook has slightly improved, as 13 percent anticipate a revenue decrease of 25 percent or higher, compared with 20 percent of CFOs in the last survey. Almost all CFOs surveyed expect their businesses to improve within the next year, with 67 percent indicating a return to "business as usual" or revenues prior to COVID-19 in less than six months.

## MARINA BAY SANDS IN MONEY LAUNDERING PROBE

Marina Bay Sands casino, Singapore's largest casino, is being investigated by the U.S. Department of Justice over claims that anti-money laundering regulations were breached in the handling of the accounts of top gamblers. The justice department issued a grand jury subpoena to a former compliance chief of Marina Bay Sands in January, seeking an interview or documents on "money laundering facilitation." The subpoena is also seeking to identify any abuse of internal financial controls and whether there was any retaliation against whistleblowers. It has also requested information on another former casino employee who, according to people familiar with the matter, carried out fund transfers to high rollers.



## DELOITTE RESIGNS AS AUDITOR FOR 50 LISTED COMPANIES

Deloitte in Hong Kong has resigned as auditor for 50 Hong Kong-listed companies this year to focus on higher-growth companies in Mainland China. The resignations will reduce the number of listed companies Deloitte audits from 350 to 300. The change, however, is unlikely to have an impact on the firm's revenue, despite a drop in its audit income from 60 percent to 35 percent compared to a decade ago as a result of its shift in focus to advisory services. The move will see the firm hire 2,300 more people in Greater China, including 300 in Hong Kong, boosting its headcount to 20,000 in Hong Kong and Mainland China. Dennis Chow, China Chairman of Deloitte, said in an interview that the change is part of "client portfolio rebalancing" and the need to "focus on serving bigger customers who are market leaders." The move will see the firm focus on drug makers, online shopping companies and delivery companies.

## WIRECARD DISCOVERS US\$2 BILLION MISSING

Wirecard AG has been left fighting for survival after revealing that US\$2 billion it had reported as assets does not exist, deepening an accounting scandal that saw its market value decrease by around 85 percent. The German payment giant, which is headquartered in Munich, said on 18 June that its auditor could not find the cash balances, which represent around a quarter of its balance sheet, leading the company to postpone its annual results. The company's chief executive officer Markus Braun, who has since stepped down, was subsequently arrested on 23 June. Braun has been replaced by



Interim CEO James Freis, who is now tasked with allaying investor fears. The company said it is in "constructive discussions" with banks on continuing credit lines and is "assessing options for a sustainable financing strategy for the company."

## THE BEST CORPORATE GOVERNANCE AWARDS AT 20:

# LEADING BY EXAMPLE

Organizations with government links may not face the same corporate governance requirements as their listed counterparts, but the public's expectations of them are often higher. In the second of a series celebrating the Best Corporate Governance Awards' 20th anniversary, **Nicky Burridge** finds out why there is a need for public sector organizations to be more transparent, and how they have a role to play in setting best practices

It is crucial for public sector companies to have high corporate governance standards because of their links to the government as well as their public role, according to Ruth Kung, Chief Executive of the Hong Kong Securities and Investment Institute, a member of the Hong Kong Institute of CPAs, and a long-time member of the judging panel for the Institute's Best Corporate Governance Awards. "Because of where their funding comes from, people expect greater transparency and accountability compared with other companies," she says. "Listed companies have listing rules that govern them, but public sector organizations are beyond the regulatory requirements, so good corporate governance is important to gain people's trust."

The more transparent public entities are, the better the public can understand what is happening within them, Kung adds. As a result, if they run into difficulties, the public would see that the problem may not have been caused by an issue in governance, but rather by circumstances that were beyond their control.

She also thinks larger and well-resourced public sector organizations have a role to play in increasing corporate governance standards in Hong Kong. "They tend to have high profiles. They are in the news a lot and get more public attention. They should lead by example," she says.

One thing that has struck Kung in the years that she has been a judge is the increase in the number of companies and organizations getting through to the later stages of the awards.

She has also seen a greater variety, with entrants no longer limited to big names, but increasingly including smaller and less well-known organizations.

Another change has been the decision for judges to not only look at entrants' annual reports and sustainability reports, but also to consider news articles, enforcement cases, websites and even social media. "We try to look at what is actually happening, not just what is on paper, to see how good their corporate governance is," she says.

For Kung, a key aspect of good corporate governance is transparency, and she is pleased to see a trend in organizations increasing the voluntary disclosures they make. She adds that many are also making their disclosures more accessible by changing the way they present the information, with some even producing a shorter and easier to read version of their annual report. "Most annual reports have a lot of numbers, but now some organizations have changed their focus to be less financial and include more non-financial information. An annual report should be something people can understand and something they are interested in reading. Some annual reports are now much more user-friendly and easier to read, telling the story behind what they have done," she says.

Another area in which she thinks companies have improved in recent years is in their attitude to environmental, social and governance (ESG) issues. "I see more focus on ESG reporting, which may be due to the Stock Exchange of Hong Kong's requirements or peer pressure."



Ruth Kung



Tim Lui



Alice Law



Ricky Leung



Even so, Kung believes board diversity is one area that could be improved. “Good board diversity means different profiles in terms of, for example, age, gender, experience or nationality. It is important in both the private and public sectors as it can help to bring in new ideas and new perspectives, and to strengthen corporate governance.”

Another area where improvements could be made is the disclosure of non-financial key performance indicators (KPIs) and targets. Companies and organizations should disclose whether they are achieving their KPIs, and their progress towards targets, including explanations, as well as any remedial measures,

**“I see more focus on ESG reporting, which may be due to the Stock Exchange of Hong Kong’s requirements or peer pressure.”**

where they have fallen short.

Kung thinks the COVID-19 pandemic has been a good test for companies’ corporate governance, pointing out that companies with high standards in this area tend to be agile and better able to adapt. “COVID-19 has been a very good learning exercise for everyone. It is like a report card on how good

organizations’ risk management is and how adaptable they are to challenges without compromising standards,” she says.

## Managing risks

Tim Lui, Chairman of the Securities and Futures Commission (SFC), and a Past President of the Institute, also thinks exceptional times, such as the current COVID-19 situation, highlight why good corporate governance is so important for all organizations. “Companies that have good corporate governance frameworks and practices in place are in a better position to manage the operational risks arising from unforeseeable disruptions, such as the COVID-19 pandemic,” he says.

The SFC was given a Special Mention in the Public Sector/Not-for-profit (Large) Category last year, and one of its main objectives as a regulator is to ensure that Hong Kong’s international financial market functions efficiently during times of extreme stress. “Making sure that companies practice effective corporate governance is a big part of what we do to maintain the integrity of the market,” Lui says.

In its work to promote good governance, the SFC puts a lot of emphasis on corporate culture and management accountability. “We let senior management know that we expect them to set the right tone from the top,” Lui says.

The importance of a strong and effective board of directors is also something it emphasizes in its regulation of listed companies. Lui says the SFC is pursuing more investigations into corporate misgovernance through its enforcement work compared to only a few years ago, while it has also stepped up its collaborations with its regulatory and law enforcement counterparts in other jurisdictions

**“Making sure that companies practice effective corporate governance is a big part of what we do to maintain the integrity of the market.”**





to reflect the interconnectedness of global financial markets.

He thinks good corporate governance is just as important for the public sector as it is for the corporate sector, although he adds that public sector organizations likely have to use different metrics to measure their performance due to their very different operations. “Statutory bodies, such as the SFC, have public service mandates, and we are accountable to the public. This means we have to abide by the highest standards of transparency and accountability, and I do believe that our main focus should be on meeting the expectations people have of us.” He adds that the SFC’s traditions of independence, impartiality and public accountability are the values that form the foundation of its work.

Lui stresses that it is important for companies to make genuine efforts when it comes to disclosures and compliance, and they should not just adopt a box-ticking approach.

He adds that while 20 years ago, companies were, for the most part, compliant, their disclosures were largely designed to meet the minimum statutory or regulatory requirements.

But in the intervening years, the importance of corporate governance has been increasingly recognized, and this change has coincided with Hong Kong’s development into a leading international financial centre. The SFC has also introduced the *Principles of Responsible Ownership*, a guidance for investors on how they should fulfil their ownership responsibilities. “We hope this will promote more and better engagement with investee companies, and in turn, help to strengthen the corporate governance culture in Hong Kong.”

Going forward, Lui expects investors to be increasingly looking



at ESG factors when making decisions, and he warns that companies that do not pay attention to disclosures in this area risk being left behind.

He thinks the Institute deserves high praise for its efforts to help raise corporate governance standards in Hong Kong, adding that the awards have had a significant impact on driving developments in the city’s governance regime. “The awards have not stood still and have changed with the times. New categories are created to keep up with market trends. This helps inspire companies and public sector organizations to aim higher and do more year after year.”

### Moving beyond compliance

Alice Law, Deputy Chairman and Managing Director of the Mandatory Provident Fund Schemes Authority (MPFA), thinks having the right values in place is key to helping organizations move beyond compliance to implementing good governance. “Compliance is

doing the minimum – it is ticking a box – but good governance is setting and truly embracing the values within an organization. We should make good decisions, not just for the sake of responding to internal audit exercises, but because it is in the public interest to do so,” she says.

She stresses that it is also important to have visibility on how decisions that affect public interest were made. “It has to be clearly explained on paper, so that anyone can understand the basis for the decisions and see that they are well-thought out, well-reasoned and objective.”

She adds that, unlike the private sector, public organizations are entrusted with a public mandate, so the organization must be supported by a good governance framework to ensure they can execute this mandate. “Public bodies are also entrusted with public money, so we have to be fully accountable and have transparency,” she says.

Law says the MPFA, which was given a Special Mention in the Public Sector/Not-for-profit (Large)

Category of last year's awards, has a clearly stated mandate and its structure is designed to uphold its mission and values. But she concedes that for many people, this is quite abstract, and they also need to be given the tools to fulfil the mandate, while the right culture must also be put in place. "You have to change the culture and the mindset of how people see things as a public officer. You can make many rules for your staff to comply with but if they are not truly embracing the values, it is only a paper exercise for them," she says. "Clearly, in a setting like this, we are not driven by maximizing profits, so sometimes people lose a sense of why they are here, and it can be harder to measure performance."

Since it was first set up just over 20 years ago, the MPFA has been working continually to improve its governance standards. Its internal audit process was set up in 2002, with the audit committee put in place three years later, followed by internal training and the creation of codes of conduct for directors and staff. "It has been an evolving process and a learning process as well. It is not straightforward.

We need to provide frequent communication and a lot of briefings to remind staff why they are here and what their mission is. We want them to see themselves as providing regulatory services in the provident fund space," Law says.

Alongside ensuring that the MPFA itself has good governance, the organization also promotes high governance standards across the MPF industry. It has done this in different phases since it was first launched, initially raising awareness and producing a set of governance principles as a benchmark, then encouraging MPF providers to carry out their own internal self-assessments, and finally provided training for directors to help them improve standards within their organizations.

In 2018, it organized the trustees of MPF schemes to pledge a Governance Charter committing to putting scheme members' interests first. It also holds regular roundtable events and seminars, as well as an annual symposium to promote high governance standards. Law says: "It is important that people share their experiences and

are not shy about discussing their problems, so that we can all learn from each other. Enforcement can be a blunt tool, and it is also important to offer coaching and mentoring, share experiences and to collaborate as a partner."

She thinks the Institute's awards are important for public organizations because they provide them with recognition that they are doing a good job. "For us, winning a governance award was recognition, not just of what our organization is doing itself, but also our work lifting governance standards and awareness across the industry. This is our biggest source of satisfaction."

### Leading the way

Public sector organizations should lead by example when it comes to sustainability, according to Ricky Leung, Executive Director, Engineering and Technology, at the Airport Authority Hong Kong (AA). He adds that as a statutory body, the public often has higher expectations of the AA in terms of corporate governance, sustainability reporting and disclosures.

Sustainability has become



Alice Law is Deputy Chairman and Managing Director of the Mandatory Provident Fund Schemes Authority.

**"You can make many rules for your staff to comply with but if they are not truly embracing the values, it is only a paper exercise for them."**



Ricky Leung is  
Executive Director,  
Engineering and  
Technology, at the  
Airport Authority  
Hong Kong.



increasingly important to the AA over the years, with the organization rolling out an array of programmes, ranging from carbon management and waste management, to green procurement and a sustainable dining policy, to setting up an environmental fund. “We believe sustainability has become a focus across Hong Kong against the backdrop of growing awareness of its potential impact on businesses, as well as increasingly proactive government policymaking and the growing body of international agreements related to the environment. The public, especially consumers, have become more conscious of companies’ sustainability efforts and performances,” Leung says.

The AA, which won a Gold Award in the Public Sector/Not-for-profit (Large) Category, together with a Special Mention for its sustainability reporting, in last year’s awards, adopts an airport-wide approach to sustainability, moving beyond areas that are under its direct control, to engage with its business partners in order to have a greater impact. “We try to frame these programmes to be easy, useful, and,

wherever possible, free to our airport business partners,” Leung says.

An example of one of these initiatives is its food waste recycling programme, under which it collects food waste from Hong Kong International Airport (HKIA) and its partners, and transports it to an organic resources recovery centre for conversion into biogas. Meanwhile, the HKIA food rescue programme, which is run in partnership with Food Angel, a local food rescue organization, collects surplus food and uses it to put together hot meal boxes for distribution to people in underprivileged communities.

Leung thinks organizations will need to be increasingly focused on sustainability as the world copes with COVID-19, and companies not only need to enhance their resilience to face future challenges, but also to contribute to a community-wide recovery effort. He adds that accountants have an important role to play in helping organizations improve their performance in terms of sustainability. “Incorporating accounting into sustainability would help companies visualize

and measure the efforts and impact of their sustainability work. It would also enable them to determine how they could further enhance their work and allocate resources to maximize the positive impact,” he says.

Leung thinks the inclusion of sustainability and social responsibility in the Institute’s awards has helped to elevate the importance of these issues among both C-suite executives and accounting professionals. He adds that winning one of the Institute’s awards is an honour for the AA. “It recognizes our effort in upholding corporate governance and improving our sustainability performance and will further motivate us to continuously improve.”

Many public sector organizations recognize the role they have to play in raising governance standards in Hong Kong, seeing their public service mandates, and the increased need for transparency and accountability as strong reasons to focus on excelling in this area.

*Read the first part of the BCGA at 20 series in the March 2020 issue of A Plus.*



The Best Corporate Governance Awards, organized by the Hong Kong Institute of CPAs, are proudly celebrating their 20th anniversary this year. The awards are open for entry in early July across seven categories of listed companies and public sector/not-for-profit organizations.



# SECOND OPINIONS: WHAT LESSONS SHOULD BE TAKEN BY THE WORKPLACE FROM COVID-19?

**“82 percent of companies believe flexible work arrangements are now the most important means of employee management.”**



EDWARD AU

SOUTHERN REGION MANAGING PARTNER  
DELOITTE CHINA, AND AN INSTITUTE MEMBER

Based on our analysis of the leading practices of multinational companies in business continuity planning and emergency management of major infectious diseases, lessons from the coronavirus pandemic include the following:

*Assess the risks and clarify emergency response mechanisms, plans and division of labour.* Many multinational companies have established contingency plans or business sustainability plans, usually implementing these immediately in the event of a major emergency. If a company has no such plan, it should conduct a comprehensive assessment of all risks, including employee, outsourcing, government, public and supply chain issues. According to the risk assessment, the company should respond to issues around office space, production plans, procurement, supply and logistics, personnel safety and financial capital, as well as arrange other major matters related to emergency plans and division of labour.

*Establish a positive information communication mechanism and create standardized communication documents.* It is important to stabilize supply chains and the mindsets of internal employees and external partners, as well as strengthen the management of publicity and customer services to avoid negative public opinion caused by negligence or inconsistency. At the same time, a company's existing information system should be used to collect, transmit, and analyse epidemic information and issue prompt risk warnings.

*Maintain the physical and mental well-being of employees, and analyse the nature of different businesses and jobs to ensure appropriate resumption of work.* According to Deloitte's latest human resources survey on epidemic responses, 82 percent of companies believe flexible work arrangements are now the most important means of employee management. We recommend companies to immediately establish flexible vacation and work mechanisms, using technical means to establish non-face-to-face or off-site work parameters during special periods. Besides this, a company should establish a staff health monitoring system and keep employees' personal health information confidential. For example, during the most critical period of the pandemic, our firm immediately implemented a weekly self-declaration digital survey to ensure that we are aware of our people and their family's safety and health situation.

*Upgrade the company's risk management mechanisms.* We believe companies could face unexpected risk events at any moment. They should establish or upgrade their risk management systems to identify the key risks and build risk mitigation plan. Strengthening risk management systems is just as important as dealing with negative events when they arise.

**BONNIE CHAN**

TRUST AND TRANSFORMATION LEADER  
IBM GLOBAL BUSINESS SERVICES, GREATER  
CHINA GROUP, AND AN INSTITUTE MEMBER

While the lessons from the pandemic are not new, they have never been more important. The crisis has taught us to always be prepared. As part of that, it's critical to create a cross-functional team to provide the framework and strategic guidance for tackling the issues. When the crisis started, IBM immediately set up a crisis management team to assess and address the dynamic impacts of the virus, from workplace and work-from-home adjustments to healthcare and financial questions.

The team saw the importance of meeting on a daily basis to receive feedback from the leaders, to make decisions and drive actions. During these meetings, the work-stream leaders would typically report on their own area, raise issues and ask for help.

Another takeaway is that the remote work model is doable and could be here to stay. Acknowledging that working-from-home is the new norm, IBM's crisis management team provides employees with hints and tips to effectively work at home. The company has also seen the importance of developing initiatives with an objective of building a more flexible and productive workforce. For example, IBM developed the following work-from-home pledges during the pandemic:

- I pledge to be family sensitive: Putting a call on hold to handle a household issue is OK.
- I pledge to support flexibility for personal needs: Respect social boundaries when scheduling meetings.
- I pledge to support "not camera ready" times: It's OK to turn off video as needed. Try to have a profile picture, which allows people to "see you without seeing you."
- I pledge to be kind: I will keep in mind that I am "showing up" in others' homes for the first time and want to be a good guest.
- I pledge to set boundaries and prevent video fatigue: Use new time limit boundaries for meetings, recognizing video fatigue is a new phenomenon for all of us.

Strong communication is also key during times of crisis. A critical lesson for us is that timely and effective communication from one voice (human resources) can resolve most questions from employees and managers, avoid unnecessary anxiety and win trust. This can include an informative questions and answers channel, case management and reporting processes, and manager and employee responsibilities.

**"The team saw the importance of meeting on a daily basis to receive feedback from the leaders."**

**MOHAMED BUTT**

EXECUTIVE DIRECTOR  
HONG KONG PRODUCTIVITY COUNCIL

Despite signs of COVID-19 receding in some parts of the world, pandemic-triggered new norms remain – from remote working, mask-wearing, to technology inventions that alter almost all aspects of our lives. The extensive adoption of top-notch technologies like artificial intelligence (AI), robotics, Internet-of-Things and big data, has rapidly reshaped our workplace and business operations. Once transformation begins, businesses will not necessarily go back to the old days. The Hong Kong Productivity Council (HKPC) has seen the following transformations take place.

*Commercialization of research and development (R&D) is on the rise:* The pandemic has propelled us to fast-track technology adoption, not only for the well-being of our society, but also to generate new business opportunities. Thanks to our in-house experts, HKPC quickly debuted anti-pandemic smart initiatives. One of which is a touchless elevator panel, "kNow Touch," making use of the sensor-enabled application to remove the need to physically touch buttons. To facilitate early detection of visitors' body temperatures, HKPC's experts developed an AI thermal camera, which can alert frontline personnel with prominent sound and visual images in case a fever is detected. The "kNow Touch" has also been patented for further commercialization.

*Reindustrialization to drive economic resilience:* Grappling with the tough times, successful enterprises are those that look introspectively and are dynamic in transforming their operations with the market. Take, for example, the many local manufacturers that have started establishing mask production lines in light of local shortages. Engaged by the Hong Kong government, HKPC's tech experts worked round-the-clock to provide technical support on machine adjustment and testing for 50 mask production lines. This alleviated the mask shortage, and most importantly, reignited Hong Kong's reindustrialization. Sure enough, this will play host to the city's economic resilience, as local manufacturing steers towards high value-added production and supply chains.

*Be aware of cyber lockdown:* The pandemic also teaches us to put cybersecurity on top of our minds, given how quickly most organizations found themselves shifting to remote working, and hackers seeking to take advantage and launch cyber-attacks. Advice to the IT and risk management teams is to be more vigilant than ever – since "cyber lockdown" could be as disastrous as "coronavirus lockdown."

**"Successful enterprises are those that look introspectively and are dynamic in transforming their operations with the market."**





# THE STORYTELLER

As the International Integrated Reporting Council revises its widely used integrated reporting framework, its Chief Executive Officer Charles Tilley talks to Nicky Burridge about how he steers the organization's strategy, and why its multi-capital agenda has never been more relevant

Photography by Matthew Joseph

**B**usinesses should be a force for good in society – that's what Charles Tilley, Chief Executive Officer of the International Integrated Reporting Council (IIRC), believes. He points out that businesses provide goods and services that people need, they help to fund public services through the tax they pay, and they create wealth for society, particularly through pensions due to the investments they make in listed companies.

But many businesses, he adds, are not getting their story across particularly well and, as a result, people do not view them positively.

For their own part, businesses need to see value creation not just as how much money they make, but in terms of meeting the needs of their customers, employees, and supply chains, protecting the environment, and being a trusted organization within their communities.

Tilley concedes connecting all of these different pieces together can be challenging. It is here that the IIRC comes in with its mission to help establish integrated thinking and integrated reporting (<IR>) as a mainstream business practice.

"Integrated thinking is about understanding your business model more deeply, how you create value for all these different constituents

and how you manage present and future opportunities and risks," he explains. "<IR> is how you tell this story. Saying to your investors, 'This is how we make money. We are confident we can continue to make money because we have looked after all of our stakeholders in an appropriate way, and we are addressing the obvious risks as well.'"

## A multi-capital focus

The IIRC produced the *International <IR> Framework* to help companies adopt integrated thinking and reporting into their business models. "One thing that is unique about it is that it is multi-capital," Tilley says. He points out that a business is much wider than just financial capital, and also has intellectual property and manufactured capital, human capital, natural capital, and social and relationship capital. "If you are really thinking about value creation, you need a multi-capital focus."

As well as helping companies understand value creation, opportunities and risks, they can also use the framework to understand what metrics they need to identify to measure their progress and ensure that all of their key performance indicators and incentives are aligned.

**"Integrated thinking is about understanding your business model more deeply, how you create value for all these different constituents and how you manage present and future opportunities and risks."**

## LEADERSHIP PROFILE

Charles Tilley



Charles Tilley, former chief executive officer of CIMA, spearheaded the joint venture with the American Institute of CPAs, and was fundamental in creating the Association of International Certified Professional Accountants.

Tilley points out that putting the right metrics and incentives in place can be challenging. When he was CEO of the Chartered Institute of Management Accountants (CIMA), he used to spend two weeks every year working with the finance director to create the key metrics and link them to financial incentives for staff. “We were really proud of ourselves. We had it all on a connected and integrated basis, but even so, we always made some mistake and put something in place that did precisely the opposite of what we wanted,” he says. He notes that targets often have unintended consequences. “For example, when the medical profession started measuring the death rate from operations, some consultants started avoiding the more challenging cases – which was clearly not the intended consequence. We learned at CIMA that we had to study the impacts

of the metrics we were putting in place.”

Despite the challenges, Tilley thinks looking at all of their drivers for value creation and having the right metrics in place creates considerable advantages for companies. “It is really powerful. This current pandemic shows how important it is to understand how the organization creates value and why it exists, and that is very much a part of what we are advocating.”

He adds that the framework, which has been adopted by around 2,000 companies worldwide and is referenced or endorsed by 20 regulators, also moves the finance function towards what is required for 21st century reporting. “It is also relevant to auditors in terms of the assurance of reports, and advisory practices in terms of how they advise businesses on these issues. It is a huge opportunity for the firms,” he says.

Tilley was chair of the IIRC’s technical task force when the <IR> framework was first developed. “It was a very robust process. It was akin to the best standard setting processes.”

He says an important part of the process was really listening to the different needs of stakeholders, and making sure these were well understood, as well as finding a way to address apparently conflicting issues between what investors wanted and what regulators or companies themselves wanted. “That was a very big challenge. The way I dealt with that was, ultimately, going back to the idea of businesses being a force for good. If you focus on long-term value creation, all the things that are important to a company are equally important to investors and are equally important to society more widely,” he says.

During the creation of the

framework, Tilley remembers there being a lot of detail that he needed to work through and understand, which involved having multiple conversations with different stakeholders. “The conversations were great fun,” he remembers.

### Changing with the times

The IIRC is currently revising the framework to ensure it remains relevant to the changing business environment. Last month, it called on stakeholders globally to share their thoughts on a new consultation draft, proposing revisions to the framework. “We were set up to provide a framework and way of thinking that was relevant to the 21st century, so we need to continually be looking to see if we need to evolve,” Tilley says.

He adds that while the feedback the IIRC received to the consultation in 2017 concluded that the framework was still fit for purpose, the organization decided minor modifications are still needed, particularly based on insights stemming from practical use and wider market developments. It is currently doing a consultation on proposed changes to two key areas. One of these is the governance process for signing off internal reports. “It is incredibly easy just to get your pen out and sign, but you should explain what processes you have been through, how you have got to your business model and checked it, that you are describing everything fairly and that the board takes responsibility for that.” The proposed changes that are being consulted on now cover how organizations communicate reporting processes and give further clarity as to how an integrated report should be signed off and by who – highlighting the intent of the <IR> framework, which is to promote the integrity of an integrated report through the commitment of the highest oversight or decision-making body.

Another key area of change relates to business model considerations and how a business communicates and understands its impacts – both positive and negative.

This involves tightening the language around the difference between outputs and outcomes and clarifying that while an organization should communicate how it creates value – it also needs to be honest about how it preserves or erodes value.

The IIRC is also consulting on what reporting will look like in the future, including the role of technology, assurance and metrics.

The consultation period is open until 19 August and Tilley encourages all those with an interest in corporate reporting to share their thoughts – either via the IIRC website or through one of the 20 regional roundtables taking place globally, including in Hong Kong on 16 July which is co-hosted by the Hong Kong Institute of CPAs and the Business Environment Council.

Going forward, Tilley expects further revisions to the <IR> framework to be needed to address the growing role of technology on business reporting. “The way investors and others are thinking about reporting is rapidly changing. If you want to report in the United States, you have to use XBRL [eXtensible Business Reporting Language], so that all the data is tagged. These requirements are going to increase because people want to be able to grab the data they want, rather than have you give them a report in which you tell them what you want,” he says. Indeed, XBRL allows unique tags to be associated with facts in a financial statement, allowing reporting terms to be authoritatively defined. “Investors already have social media information that is more real-time than the information the board has.”

He points out that to deal with these demands, companies will have to create data warehouses for structured and assured data. “We believe our framework provides a structure for that data. It is really early days, but I envisage it being something we will be spending a lot of time on because that will be the next stage of what reporting looks like.”

As the IIRC celebrates its 10th anniversary, Tilley stresses the need for it



The Institute and the Business Environment Council are co-hosting a roundtable on 16 July to collect feedback on the International Integrated Reporting Council's (IIRC) new consultation draft, proposing revisions to the International Integrated Reporting Framework. The feedback received will be used to inform a revised framework, which will be published in December. For more information about the consultation, visit [www.integratedreporting.org/2020revision](http://www.integratedreporting.org/2020revision)

**“It is also relevant to auditors in terms of the assurance of reports, and advisory practices in terms of how they advise businesses on these issues. It is a huge opportunity for the firms.”**



to ensure that what it is advocating for is kept up to date. “Whether we are talking 10 years or 100 years, the concepts will need to develop as the world develops,” he says. Staying up to date is also a key part of how he measures the success of the organization, which he sees not just in terms of the adoption rate of integrated thinking and reporting, but also whether the corporate reporting system is meeting the needs of investors, companies, regulators and the wider society.

### Maintaining relationships

Tilley heads up a relatively small team of just over 20 people at the IIRC and manages its budget of around £2 million. The main focus of his role is leading the organization’s strategy, which he says has two key parts. The first is to encourage the convergence of reporting standards, so that there is a consistent set of standards that companies can reference in their own reporting and metrics to make everything easier to understand.

“We are working with the standard setters, including the International Accounting Standards Board, the Sustainability Accounting Standards Board, and the Global Reporting Initiative, and with regulators around the world, as well as global organizations such as the World Bank and the International Organization of Securities Commissions.” As part of this work, the IIRC has set up with the major standard setters the Corporate Reporting Dialogue, which was designed to achieve greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.

The second element of his

work involves encouraging the adoption of integrated thinking and reporting around the world, and providing companies with resources, including the <IR> framework itself, as well as guidance, networks through which businesses can collaborate and case studies of best practice. “The job is very much around having a clear, focused strategy, and making sure we are using our resources in the best way. Not just our own internal resources of people and money, but also our relationships.”

Tilley sees maintaining these relationships and communicating what the IIRC is doing and why its work is important as being a key part of his job. “Relationships are absolutely critical. They provide us with fantastic opportunities in terms of influence and opening doors and giving <IR> legitimacy. But if we don’t look after those relationships well, they fall away, and I lose all of them.”

### The language of business

Tilley left school at 18 and decided to train as an accountant with a view to working in business. “Accounting is the language of business and if you want to be in business, it is a very useful starting point,” he says.

He became a Chartered Accountant in 1973, while working at a medium-sized practice in Moorgate, London. “It was terrific training. It was a general business training at the time, and included financial accounting, management accounting, company law, economics and tax. It helped me understand how businesses operate. It makes a great base,” he says.

The first phase of his career saw him working for 14 years at KPMG, including a stint in Hong

Kong in 1978 to 1979. During this time, he was involved in a lot of high-profile audits, and what he describes as “some really interesting businesses,” ranging from companies making silicon chips through to those in retail, manufacturing, technology and banking. “I saw a lot of different organizations and interfaced with chairmen and chief executives at a very young age. I cringe at some of the things I said because, like many people, I was so naive when I was in my early 20s. Now I think, ‘Oh my goodness how could I have said that.’ I still get nightmares.”

When he became a partner at KPMG, Tilley was put in charge of their graduate recruitment programme for the United Kingdom, which he describes as being one of the most memorable experiences of his career. “It was an amazing job. We were recruiting thousands of people who were the future of the firm. It was just a brilliant thing to meet them all. We were interviewing 6,000 people a year.”

Tilley left the firm to become group finance director at Hambros, which at the time was the second biggest investment bank in the U.K. “Hambros was just such an extraordinary organization. You could pick up the phone to anybody and they would speak to you because it had such a high profile,” he says.

He then moved to independent investment bank Granville, where he oversaw its sale to U.S. bank Robert W. Baird to become Granville Baird. “It was an incredibly complicated deal. It was on-off, on-off, but we eventually sold it at top dollar, so we were very pleased.”

Following the sale of Granville, Tilley was approached about

**“Accounting is the language of business and if you want to be in business, it is a very useful starting point.”**

becoming CEO of CIMA. “My career had been all about driving businesses forward and learning what drove success and why things failed. I looked at CIMA and I thought, this is about better business,” he remembers.

He points out that as a professional body, CIMA is focused on training individuals, keeping them up to date and having a code of ethics that means they act professionally and responsibly. “To be part of an organization working for the public interest was very appealing at that point in my career and remains so today,” he says.

Tilley was CEO of CIMA for 15 years, and during that time he helped initiate a joint venture with the American Institute of CPAs, leading to the creation of the Association of International Certified Professional Accountants in 2017. “We had about 200,000 members and students around the world and our biggest challenge, in an increasingly global and complex world, was having influence in all of our markets. We also struggled to get into North America,” he recalls. Meanwhile, the association, which had around 400,000 members, wanted to have greater international reach. Its Chief Executive, Barry Melancon, approached Tilley in 2010 about the two organizations joining forces.

The two management teams were holding initial talks in New York when the eruption of a volcano in Iceland grounded air travel to Europe. “We were stuck in New York for a lot longer than we thought we would be, which was great because it helped us really work through the issues.”

He became involved in the IIRC when it was first formed in 2010. “I have done a lot of work



Tilley was chairman of the International Federation of Accountants' Professional Accountants In Business Committee. He previously chaired the IIRC's technical task force, the group responsible for developing the integrated reporting framework.

around the accounting profession, including with the International Federation of Accountants, chairing their Professional Accountants in Business Committee, and also being on the board. I regard all of this as the third part of my career,” he says.

When he is not working, Tilley loves to spend time with his wife, children and five grandchildren, whose ages range from seven months to six years. “My son lives a 20-minute walk away and my daughter is a 30-minute drive away, so that is all good,” he says.

He is a keen sailor and did a lot

of sailing when he was in Hong Kong, while he also enjoys playing tennis and cycling. “Cycling around London during COVID-19 has been extraordinary. When it first started, it was almost apocalyptic seeing all the deserted streets.”

Travel is another passion, particularly if it incorporates cycling or trekking, and he has cycled in Sri Lanka and France, and trekked in Nepal, Argentina, Chile and Ethiopia. “I have always been a great believer in having lots of holidays,” he says, “and I hope to continue to do so.”



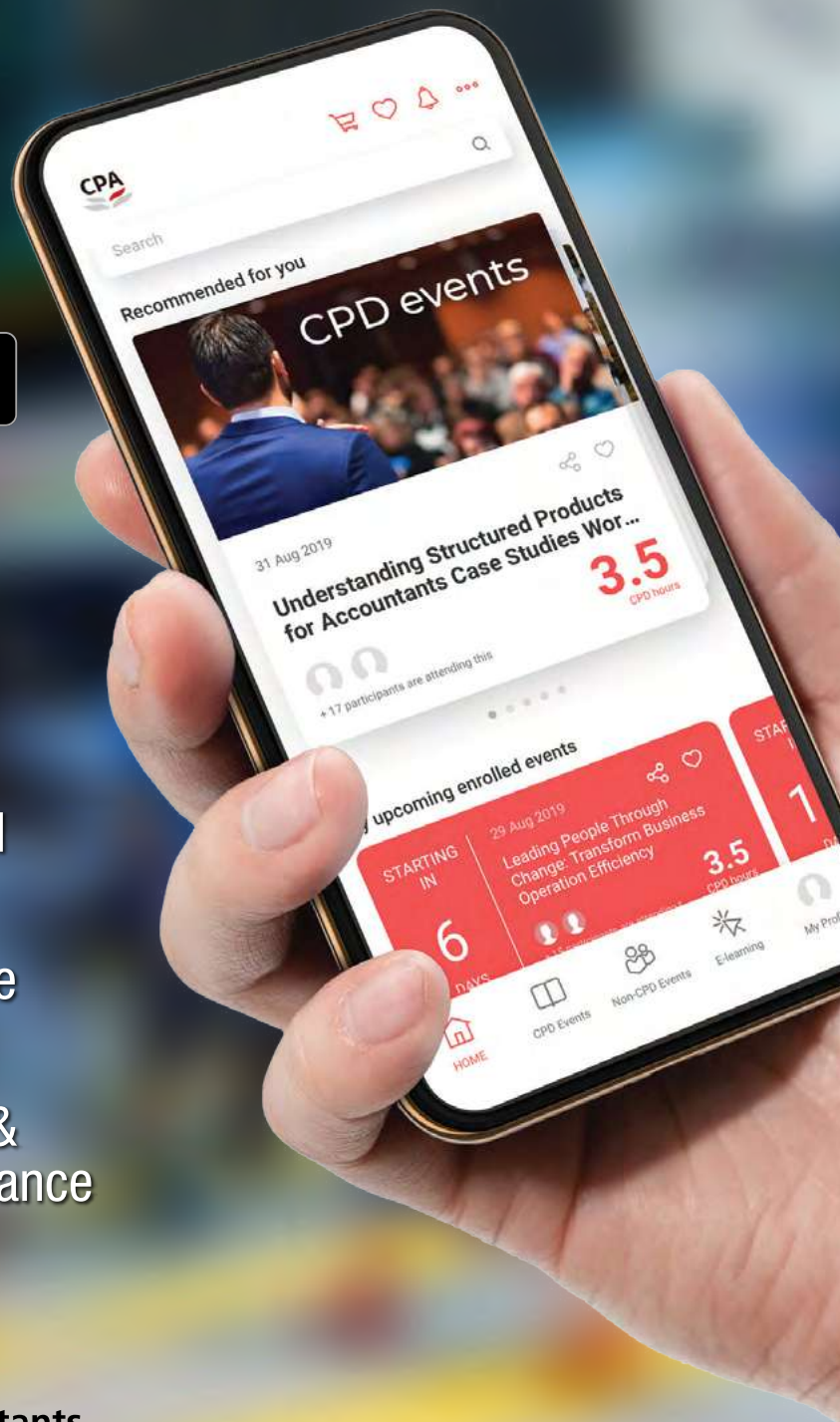


# More comprehensive. More personalized.

Download the new HKICPA Events app today



- Explore events crafted to your taste
- Pay the way you want
- Scan to check in for enrolled events
- Raise questions & participate in polls live
- Access your CPD summary & attendance record all at a glance



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

# Regional tax considerations for an M&A transaction roundtable: Annual Taxation Conference 2020

Sarah Chan discusses why watching the upcoming roundtable discussion at the Institute's Annual Taxation Conference 2020 will help practitioners to navigate the merger and acquisition landscape



**Sarah Chan** is Deputy Chair of the Institute's Taxation Faculty Executive Committee, Member of the Taxation Faculty China Tax Subcommittee, and Partner, Tax and Business Advisory Services, Deloitte China.

She has more than 25 years of tax and business advisory experience.

Having previously worked in China and the United States, Chan has extensive experience in advising multinational corporations on structuring transactions, business reorganization, operational re-modelling, cross-border financing and exploring investment options and exit plans.

International tax developments continue to evolve alongside new business models due to the continued globalization of the world economy over past 20 years. The blurring of boundaries and borders has been intensified by the fast-paced developments in the digital economy over the past 10 years. This stresses traditional international tax models and treaties.

Due to the fact that the traditional tax systems were not developed to deal with the business models of the modern economy, international organizations have developed guidance to provide a level playing field in international tax. The Organization for Economic Cooperation and Development (OECD) and other international organizations, like the United Nations and the European Union, have developed and introduced new guidance and international tax models, and it is becoming more difficult for corporations that have cross-border transactions to obtain tax benefits by utilizing loopholes in the tax systems in different jurisdictions. Increased transparency as a result of exchange of information among the different tax jurisdictions also makes it more challenging for corporations to manage the potential tax risks – and costly when it comes to tax litigation.

The OECD Base Erosion and Profit Shifting (BEPS) inclusive framework, an international tax model, introduced new transfer pricing (TP) rules. Many tax jurisdictions, including Hong Kong, have codified the BEPS TP rules into their local tax legislation. While many of us had just got ourselves familiar with these TP rules, the Hong Kong government is now busy preparing for the impact of the next phase of BEPS, the BEPS 2.0 initiative.

The report on the long-term and consensus-based solution under the BEPS 2.0 initiative will be released in a few months time. The Global Anti-Base Erosion Proposal (GloBE), under Pillar Two of the BEPS 2.0 initiative, will set a minimum effective tax rate on profits of multinational

corporations. The rules under GloBE may have profound impacts on the Hong Kong tax system.

## About the conference

The Institute's Taxation Faculty will host the Annual Taxation Conference 2020 on 18 July as an e-conference, covering some recent developments in the international taxation landscape.

During the conference, I will moderate a panel using a hypothetical merger and acquisition (M&A) case as a base for the discussion. Tax can be a major consideration for an M&A transaction, and major unsettled tax disputes of the targets can be deal-breakers for transactions. The panellists will discuss the tax implications in the following areas through a case study:

- Indirect transfers;
- Appropriate pricing of interest rates in intercompany financing activities in multiple jurisdictions;
- Interest deduction issues on cross border inter-company financing activities;
- Tax issues for using pure holding companies, e.g. entitlement of tax treaty benefits, withholding tax on dividend payments; and
- Would it be better off not using the pure holding companies in the group structure?

As well as this panel, there will be presentations on the latest changes in the Hong Kong domestic tax legislation and the new tax practices of the Inland Revenue Department (IRD) from Brian Chiu, Deputy Commissioner (Technical) of the IRD, and Michael Olesnicky, Senior Consultant from Baker & McKenzie, sharing the latest decisions from court cases and the Board of Review. There will also be another roundtable discussion on the challenges Hong Kong faces from the BEPS 2.0 initiative and COVID-19.

If you are keen to learn the recent domestic and international tax developments, you cannot afford to miss the Annual Taxation Conference 2020. Register online for the conference.



# NAVIGATING CHINA'S





# TAX SYSTEM



Experts at the Institute's China Taxation Conference last month covered strategies for navigating the Mainland's complex tax system and the latest developments that members should keep up to date on. [Eric Chiang](#) and [Paul Smith](#) report

Photography by Calvin Sit

## SPEAKERS:

(Top row, from left)

**ANDREW FENNELL**

Senior Director, Asia-Pacific Sovereign Ratings, Fitch Ratings

**CECILIA LEE**

Partner, Transfer Pricing Services, PwC

**TRAVIS LEE**

China Tax Director, KPMG

(Bottom row, from left)

**SARAH CHAN**

Partner, Tax and Business Advisory Services, Deloitte China

**WILLIAM CHAN**

Partner, Grant Thornton Tax Services

**ANDY LEUNG**

Tax Partner, Indirect Tax, EY

**W**hile this year's China Taxation Conference was a more low-key affair, held as a webinar, it

was still well-attended and the presentations and discussions remained insightful.

The roundtable panel discussion featured a case study (see sidebar on page 27) about a multinational group engaged in research and development (R&D) and sales across multiple jurisdictions and subsidiaries, including one in the Mainland. The holding company and the subsidiaries have a long-standing cost sharing agreement (CSA) to share the R&D cost of the company's flagship software according to the sales in each jurisdiction. The Mainland subsidiary has been asked to perform a self-evaluation on its tax filing positions by the tax authority (TA).

### Cost sharing

William Chan, Chairman of the Institute's Taxation Faculty Executive Committee, Partner at Grant Thornton Tax Services, and moderator of the panel, began by noting that CSAs were very common for groups with cross-border R&D and sales. He asked panellist Cecilia Lee, Partner, Transfer Pricing Services, PwC, how the Chinese tax authorities would look at CSA arrangements in general.

Cecilia Lee replied that CSAs are not new in the China tax system. "The original objective of having a CSA is to encourage people to engage in more activities in intangible assets, or intellectual property (IP), such as R&D, activities which require labour services," she said. "When labour services are involved, the TA may argue that the arms' length principle applies."

The fundamental rules for allocating the cost among entities would be based on the reasonably anticipated benefit, which may reference the projected income of the project, Cecilia Lee says. There are benefits to coming to agreement with the TA. "It is a blessing if you manage to agree on the appropriate tax treatment for cost sharing. But if the TA doesn't agree to that tax treatment, they may regard that as a royalty payment, and withholding tax kicks in," she highlighted. Finally, another benefit of getting an agreement with the TA on the CSA treatment is that the quantum of the payment can fluctuate. However, William Chan pointed out that it may not be easy to quantify the reasonably anticipated benefit.

### Interaction with income tax

William Chan then discussed the corporate income tax (CIT) implication if a CSA payment is regarded as a royalty by the TA. He asked Sarah Chan, Deputy Chairman of the Taxation Faculty Executive Committee and Partner, Tax and Business Advisory Services, Deloitte China, how such a case would be handled.

She advised that "when looking

at CIT deductions, the questions are 'why should the activity be performed outside China and how critical is the activity to the Mainland subsidiary?' and 'is the level of reward in line with the activity performed?' The matching concept applies." She concluded that the TA would allow deductions based on the totality of facts nowadays. Whereas, in the past the TA may let you claim the deduction as long as you present a service agreement to them.

This imposed restrictions on companies said William Chan. "This could mean that it is rather inflexible. Say if I subcontract certain activities to overseas group companies because I don't have capacity to handle them, does it make the expenses non-deductible?" he asked.

Sarah Chan had seen a lot of multinationals use that as a defence. "The TA accepts companies' argument that 'we centralize certain functions for better efficiency, rather than maintaining a small team in China for the function.'" But, she said that TAs may challenge companies if they are creating intangible assets based on accumulated local knowledge.

Cecilia Lee said that the TA had become very sophisticated in their tax investigations. "When they examine expenses they might do third-party benchmarking, using data from other enterprises or they might even get quotations from a service company, to determine whether it is really necessary to use head office functions," she noted. Travis Lee, member of the Taxation Faculty China Tax Sub-committee,



William Chan (left), Partner, Grant Thornton Tax Services and Sarah Chan (right), Partner, Tax and Business Advisory Services, Deloitte China.

**"Enterprises need to know what their peers are doing. You may not be able to defend your position by just telling the authority what you are doing to justify the deduction nowadays."**

Andy Leung  
(left), Tax Partner,  
Indirect Tax, EY  
and Travis Lee  
(right), China Tax  
Director, KPMG.



and China Tax Director, KPMG echoed this. “Unlike in the past where they may accept the one-sided explanation of a company, now they might undertake third-party benchmarking, before agreeing to the taxpayer’s assertion,” he said.

Sarah Chan agreed. “Enterprises need to know what their peers are doing. You may not be able to defend your position by just telling the authority what you are doing to justify the deduction nowadays.”

### VAT troubles

Sarah Chan questioned how value-added tax (VAT) works in transfer pricing (TP).

Andy Leung, Tax Partner, Indirect Tax, EY Hong Kong, highlighted that CSAs can be tricky from a VAT perspective. “Assuming they can make outbound payment, will the payment be subject to VAT?” he asked. “VAT is imposed on taxable services. Is the activity performed under the CSA a service? Technically it is not.” Explaining cost sharing between a head office

and a branch to the TA may be easier than explaining arrangements between a parent company and a local subsidiary. “Municipal tax authorities, which may not have the same level of sophistication as the state TA, may not be receptive to this idea,” he said.

For Travis Lee, issues can occur if there is a lot of uncertainty in the CSA. “I would suggest that the taxpayer talk to the TA in advance to try understand their interpretation of the arrangement. If a similar arrangement got an

## About the case

A group is engaged in software development and distribution selling business-to-business software.

The holding company is an incorporated company in the United States, with subsidiaries in different jurisdictions that maintain their own research and development (R&D) teams. The holding company is also the R&D headquarters and works closely with the subsidiaries’ R&D teams.

The holding company and the overseas subsidiaries entered into a cost sharing agreement (CSA) in 2010. The R&D cost of the flagship software is shared among all these entities according to the sales of the local jurisdictions.

The intellectual property (IP) rights of the flagship software is co-owned by all these entities. The share was initially allocated to the entities in accordance with the turnover ratio projection and is adjusted

when there are changes to the number of subsidiaries in the group, and only once a year after the accounting year end date. Changes are documented in an addendum to the CSA, with considerations for the change in the IP rights ownership put through in the intercompany balances. This is an internal process, though the group have documents to support changes, the group has not informed any external authorities about them.

The group does not sell software license rights to the users. Instead, users are charged on an annual subscription basis.

The group company in Hong Kong acts as the group corporate treasury centre (CTC) and all payments in the Asia-Pacific region made via the online payment gateway are collected by the Hong Kong subsidiary. For example, if the Internet Protocol address of a user is in China, the revenue collected would be classified as income to the China subsidiary. The CTC charges 5 percent of revenue collected as a service charge and remits the balance to the subsidiaries on a monthly basis.





Andrew Fennell (left), Senior Director, Asia-Pacific Sovereign Ratings, Fitch Ratings and Cecilia Lee (right), Partner, Transfer Pricing Services, PwC.

adverse ruling before, it might be difficult to get the transaction treated the way you want,” he said. He also pointed out the issue of multiple municipal tax authorities involved in a case. “If a transaction involved multiple locations within China, it might be difficult to entertain all the requests from all the authorities,” he noted.

Travis Lee cautioned enterprises to be mindful of how agreements with lower-level authorities might be viewed higher up. “If you have a very good relationship with the local tax bureau, you might consider that it shouldn’t be a problem to reach an agreement with them, but these deductions might be raised to the municipal tax bureau, which might scrutinize it further,” he said.

### **Reimbursement rather than provision**

William Chan turned the focus onto whether the payments could be regarded as expenses rather than service fee. “For the reimbursement of expenses rather than service fee payment, do I need to withhold VAT? Is there any means that I can convince the TA that payment is expense reimbursement rather than

service fee such that no VAT should be levied?”

The payment should theoretically be regarded as expense reimbursement. Andy Leung suggested that the company begin by clarifying with the TA that it’s a collection and payment, rather than a payment for services. “You need to explain the arrangement to the TA. If there is no precedent, you need to wait and see, but if the company needs to remit payment and cannot wait for clearance, paying VAT on a withholding basis as if the payment were a service fee and claim input tax credit is a quick fix. Yet, you could argue that the services were performed entirely outside of China such that no VAT should be levied, but this would require some technical analysis on the fact pattern,” he said.

But, again, different local tax authorities may take different views on the nature of the payment. “The burden of proof that all services were rendered outside China is on the taxpayer. Be prepared for the TA to come back and say ‘no’ if you cannot prove it,” he warned. Andy Leung added good documentary evidences showing the services were rendered outside China is critical in reaching an agreement with the TA.

William Chan noted that under the company’s CSA, certain activities are performed in China. “This could be fatal to your argument that the payment is for all services rendered outside of China,” he said.

“This really induces complexity to the case. You may need to segregate the two parts for a clean case, i.e. one for services at the local level, and one for services outside China,” responded Andy Leung.

### **Permanent establishments**

Sarah Chan commented that permanent establishments (PE) was another important consideration. “In the CSA, most cases would have R&D elements. Often the parent company would send in technical staff to set up the local R&D team. Physical presence of the foreign workers may create PEs in China,” she said.

Presenting the outbound payment as fee for services rendered entirely outside China could open a can of worms that the TA may counter that the fee was related to the PE in China, which could lead to additional CIT liabilities, she continued.

For William Chan, this really

**“The burden of proof that all services were rendered outside China is on the taxpayer. Be prepared for the TA to come back and say ‘no’ if you cannot prove it.”**

adds a complication to the CSA. “The TA let the local entity claim tax deductions, but CIT may still be payable by the PE.”

Sarah Chan had seen lots of cases of groups with CSAs. “It is important for them to appreciate that they may be difficult – particularly at the level of the local TAs.”

Cecilia Lee recommended that groups commission an independent report to document the expenses of different jurisdictions. “This could serve as a very good defence to justify on an allocation basis,” she said.

### Corporate treasury centre

The group has a corporate treasury centre (CTC) in Hong Kong, which collects all payments in the region and charges a 5 percent fee. William Chan asked, what is the tax and foreign exchange implication of the revenue of the Mainland subsidiary and service fee charged by CTC?

For Andy Leung, the income nature would dictate the VAT consequence. Fees for IT support service and revenue for sales of software would attract VAT at 6 percent and 13 percent respectively. “The terms of the distribution agreement with the customers are critical to determine whether the revenue would be regarded as a service fee for IT support or revenue for sales of software by the Mainland subsidiary,” he said. The fact that the IP is co-owned creates additional VAT complications. Unlike many other jurisdictions, foreign companies at the moment cannot register only for VAT purposes in China. “If the agreement is badly worded and the TA considers all the group entities are collectively selling the license to the user, an adverse VAT outcome could result,” he noted. “It is critically important to identify who is doing what in order to negotiate with the TA.”

“The devil is in the details,” said Andy Leung. “You need to make it quite detailed, so that the TA will know the exact identity of the payment and not to re-characterize the payment in a certain way that would make it unfavourable to the taxpayer.”

Sarah Chan recommended looking at the CIT implications from a different angle. “According to the case, the Mainland subsidiary would receive 95 percent and the CTC would charge 5 percent for the services rendered. Setting aside whether the 5 percent is a justifiable amount for CIT, the difference may not be as drastic as VAT. No matter what income we are recognizing, we are still paying CIT at 25 percent,” she noted.

Travis Lee commented that according to the prevailing foreign exchange control regulation, every transaction should be recognized by itself. “In this case, the CTC is doing a netting which is not in line with the prevailing regulation,” he said. “There has been loosening of the rules recently, so the taxpayer may not need to go through the State Administration of Foreign Exchange to get the transaction done.” The operation of the Chinese entity may not be affected to such an extent nowadays.

William Chan summarized the discussion of the company’s operations as: “foreign exchange is a manageable problem, VAT could be a problem, but TP will always be a problem.”



## An uneven recovery

The conference began with a presentation on Mainland China’s economy, and its uneven recovery from the COVID-19 pandemic.

Andrew Fennell, Senior Director, Asia-Pacific Sovereign Ratings, Fitch Ratings, started by pointing out that some parts of the economy were recovering very rapidly, but there are concerning signs about others. With the improving public health situation, the expectations would be that daily life would begin to return to normal. But he warned that it wasn’t that easy, and that the evidence is that a full recovery, to an economy similar to that before the pandemic, will be a lot slower.

The recovery is being driven by the policy-drive areas of the economy. “The industrial sector is very much leading the way. Looking at industrial production, there was a very sharp decline, but there has been a quite meaningful recovery,” he noted. Policy-driven fixed asset investment also showed resilience. He pointed to utilities and infrastructure as sectors that had recovered quicker and are going to benefit from announcements made at the National People’s Congress.

A surprising takeaway from the pandemic is how resilient the property sector has been. “The sector is very important for growth and the stability of the economy. Since the depths, this has recovered,” he said. While the market is not where it was in 2019, it has returned to 2018 levels.

“On the demand size, mortgage loans are growing roughly 20 percent per year. There still continues to be demand for residential property,” Fennell commented. “Developers, having taken a pause, are beginning to make investments,” he continued.

But to demonstrate that it is very much an uneven recovery, he pointed to the consumer sector.

Headline retail sales contracted by roughly 20 percent in February, and while they have picked up since, they are still below those of 2019. Drilling down, the data shows that people are still concerned about social distancing, and that sectors like restaurants and bars had experienced more severe contractions. “The public health situation has improved but people don’t have the full confidence to go out in the same way and engage in social activities,” he said.

On unemployment he pointed out that the official data suggested an urban unemployment of 6 percent, but was survey-based. “There are reasons to believe that many of the migrant workers, who serve a very important role in urban China, are not fully reflected in the statistics,” he commented. Fitch Ratings estimated that including some of these migrant workers who have lost their jobs or returned to the countryside for Chinese New Year and were unable to return to urban areas, “the urban unemployment rate could have been as high as 18 percent during the pandemic.”

Finally he turned to small- and medium-sized enterprises (SMEs), which account for around 80 percent of employment, and over half of gross domestic product, but are too small to be captured in official statistics. According to data from Tsinghua University, revenues were down 40 percent compared to 2019. “SMEs and consumers have borne the bulk of the shock during the pandemic. They also look to be the areas of the economy that are recovering more slowly,” he said.

“Because of this partial recovery, we do think the economy will grow at under 1 percent this year. Clearly unprecedented,” he said, before ending on an upbeat note. “We do have it recovering significantly in 2021.”









It's one thing to know how to be financially prudent, and another to devote a career to teaching others to be the same. Simon Lee, Senior Lecturer and Co-director, International Business and Chinese Enterprise Programme at the Chinese University of Hong Kong, tells [Jeremy Chan](#) his path to becoming both a university lecturer and writer, his outlook on the Hong Kong economy and his advice on planning ahead and staying financially secure during tough times

Photography by Calvin Sit

ALWAYS

THINKING

AHEAD

Simon Lee believes that proper financial management and future planning should begin at a young age. He himself started off when he was a kid. "My father passed away when I was four, so I had to learn how to save money on my own and ensure that my family was financially prudent," remembers Lee, Senior Lecturer and Co-director, International Business and Chinese Enterprise Programme at the Chinese University of Hong Kong (CUHK). Growing up, he spent frugally and would record his expenses such as his transportation and meals in a notebook with a pencil. "My mother tracked her expenses and taught me how to do it too. I did this for almost 15 years," adds Lee. He knew that if he wanted to minimize financial hardships in his adult life, he would have to find a good job. Combining his passion for financial management and accounting, his career would see him become a lecturer and writer, and one who finds joy in helping others.

Lee, a member of the Hong Kong Institute of CPAs, began teaching at CUHK full-time in 1999. He is a Senior Lecturer at the CUHK Business School's School of Accountancy, which began offering Hong Kong's first accounting degree in 1970, and is accredited by multiple professional bodies including the Institute. He teaches financial, managerial and applied accounting, corporate governance and business ethics, while his research interests include investments, retirement planning, insurance and tourism economics.

Lee graduated from the university in 1990. He recalls how accounting was a popular course back when he was

Simon Lee has been teaching accounting at the Chinese University of Hong Kong since 1999.



a student, but as a lecturer, he has seen how student numbers have dwindled over the years. “The brightest students in Hong Kong are aiming to study in medical or law schools,” he says. Statistics issued by Hong Kong’s Joint University Programmes Admissions System show that student applications to CUHK’s Professional Accountancy degree programme have fallen by almost 49 percent over the past seven years, with the university receiving only 1,569 applications in 2019 compared with 3,071 applications in 2012. “When I joined CUHK, the admission score for professional accountancy was very high, but this has also fallen across all universities in Hong Kong,” adds Lee, referring to the average score of all accounting applicants, which is calculated

based on their final exam results. This has gone down from 22.6 in 2012 to 21.8 in 2019.

Lee thinks the way students are taught accounting in secondary school could be a cause. “New students have no idea how much accounting has changed, especially from a technological perspective,” he says. “They still think accountants record journal entries with a pen and paper.” He adds that a majority of accounting students enter university having studied the subject in secondary school, and are taught from a more traditional perspective. “The school curriculums stick to textbooks that fail to mention how accountants today use technology in their work or how accounting is used in a real-life situation,” he says. “This leads students to think ‘oh, this is what

accounting looks like,’ when in fact, it has changed so much.”

Lee says that universities have more flexibility in addressing this gap in knowledge, however the city’s secondary schools have a long way to go to strengthen accounting education. “We rectify this at the beginning of the course,” he adds. “We tell students that accounting may not be the same as what they have learned in secondary school and supplement them with additional readings on the latest technological developments.”

The university, he notes, is aware of this issue and strives to provide students with more than just a foundation of accounting before they enter the workforce. “We expect final year students to be able to apply what they have learned to a real-life situation,” he says. Lee

**“New students have no idea how much accounting has changed, especially from a technological perspective.”**

## “I stick to writing practical books – my hope is for readers to apply what they have read.”

says the university’s School of Accountancy has collaborated with the Department of Finance to introduce more elements of finance in the accounting programme to boost its popularity. “We recognized that not all accounting students want to work at an accounting firm after graduation – some of them have heard about the demanding nature of the job and the long working hours. Many are also looking to work at a bank, an investment bank or even a start-up.”

### Practical tactics

Above all, Lee views this issue as an opportunity to inspire his students’ interest in accounting. “Students first need to understand how accounting information is used rather than how it is created,” he explains. For instance, when it comes to introducing what financial statements are, he will stick to easy-to-picture examples. By breaking away from the traditional method of going through long explanations and theory, he has seen how his students are able to grasp how accounting involves companies across different spectrums. “I’ll start with showing the financial statements of companies such as Cathay Pacific or Ocean Park. Frankly, these two companies haven’t been doing so well over the years and it’s shown in their financial statements. This has really helped students.”

Having relatable examples, especially ones concerning struggling local businesses, not only pique students’ interest, but help them to first understand the meaning behind financial statements, and to understand terms later on, such as income statements, statements of financial position and cash flow statements. “Another example is illustrating the application of the break-even analysis with the example of Hong Kong’s food trucks – they haven’t done so well either,” he explains.

In nurturing his students’ soft skills, Lee says class presentations provide the ideal platform for them to apply and gain knowledge. “I’m one of the few professors in the School of Accountancy who places heavy emphasis on quite extensive presentations, especially for students in senior years,” he says. Many students still lack communication and presentation skills, Lee adds, so he takes the opportunity to build them. “I would select a relevant company, form groups within the class and have them perform research on that company. The aim is to have them apply their combined knowledge of accounting

financial strategies, valuations and financing.”

He notes that by performing research, students engage in their own self-learning process and also hone their speaking skills, another core skill that Lee believes students should improve on. “I shared with them that one day, when they become a senior executive, finance director or partner in any company, they would be dealing with various stakeholders, and that communication and presentation skills are essential,” he says.

### Life-changing words

A few years after becoming a lecturer, Lee started writing and finished his first book on personal finance in 2006. He has since published eight books on accounting and financial management. One of Lee’s books on financial management, “慳出你的第一桶金,” published in 2009, explains how to build one’s first pot of gold and “讓退休金逆市增值,” which was also published in 2009, teaches how to increase one’s pension against the market. “I stick to writing practical books – my hope is for readers to apply what they have read,” he says. “I make use of real-life success stories, business failures and business world observations. These help to provide concrete examples.”

His interest in writing came after being interviewed by the *Hong Kong Economic Times (HKET)* about a course on personal financial management and accounting he was teaching during his first few years as a lecturer. Lee was also teaching a certification course on financial planning. “It was an executive training programme for insurance companies and banks,” he says. “I found that even adults weren’t the best at financial management.” During his research, he was also struck by the spending habits of young people and tries to address this during his lectures and in his books. “Young people in Hong Kong have a habit of overspending, especially with their credit cards,” he says. “I’ve seen young people, such as university students, end up declaring bankruptcy because of this. This could hurt their financial status when they decide to borrow money from a bank later in life to buy a house or start a business, for example.”

Beyond financial management, Lee takes an interest in the city’s socio-economic issues. This led him to begin contributing articles to the *Hong Kong Economic Journal (HKEJ)* in late 2016 and the *HKET* in 2006 on topics such as the city’s property market, the aviation industry and the



impact of tourists on the economy. “I contribute to both newspapers once or twice a month based on critical issues within the economy,” he says. “I try to relate them to accounting, finance and economics, and I enjoy sharing my views on each topic.” He appreciates the feedback he receives from readers. “It’s satisfying when relatives, friends, graduates or current students read my articles and tell me how much they enjoy reading

them and ask questions about the topic. It’s a force that drives me to continue writing.”

In a recent *HKEJ* article, Lee wrote about the negative impact of the COVID-19 pandemic on the city’s retail sector. Lee, who takes a fervent interest in tourism economics, comments on how that might be linked to an over-reliance on tourists. “Both international and Mainland Chinese tourists make up almost half of all retail sales in

the city,” he says. Figures issued by the Hong Kong government’s Census and Statistics Department indicate that monthly retail sales in May 2019 amount to HK\$40 billion. But since May this year, that number has slipped by 42.5 percent to HK\$23 billion. “I think it’s important that retailers strike a balance. They need to focus on local spenders first and then the tourists,” he says. “The businesses suffering the most now are the ones that have relied on Mainland Chinese tourists for years.”

With the increase of e-commerce spending in Mainland China during the pandemic and the weakening yuan, Lee notes that Mainland shoppers might think twice about shopping in Hong Kong again, even if the borders completely open. “They might not have the same purchasing power as before,” he says. “Hong Kong retailers are only an agent. For example, they could ask a friend living in Europe to buy the same luxury goods and ship them over to Hong Kong for less. It will take more than just a few months for this industry to recover.”

Even if flights do resume, Lee says, the city’s tourism sector is unlikely to see a sudden rebound. “It might take two or three years to return to figures before COVID-19,” Lee says. He notes how the pandemic has inspired new and unthought-of ways of working for most, especially for those who travel frequently for work. “Business travellers have realized that they can use conferencing apps such as Zoom to replace much of business travel. Professionals across different industries have also discovered that they can deliver training and presentations without the need to spend thousands of dollars to rent out a hall or theatre at a convention centre. Occupancy rates for both hotels and convention centres will therefore remain quite low for the time being.”

**“I think people should aim to have at least two years’ worth of their average monthly expenditures saved up. This could include daily living expenses, school fees for their children, rent or their mortgage.”**

Lee has written eight books on accounting and financial management and is an active columnist for the *Hong Kong Economic Times* and the *Hong Kong Economic Journal*.



Lee views one sector more positively. In early April, the government ordered a two-week closure of more than 1,200 bars and restaurants across the city amid coronavirus fears. But since social distancing measures have relaxed, coupled with existing travel restrictions, Lee believes the catering sector is on the mend. "Hong Kong people love travelling, but since they can't go anywhere for the time being, they are more willing to spend more locally," he says. "Local business operators need to make the best use of the spending power during this unique time."

With the city's unemployment rate at 5.9 percent in May – up from 2.9 percent during the same period last year – and the underemployment rate increasing to 3.5 percent from 1 percent last year according to the Census and Statistics Department, Lee says it is more crucial than ever to manage money well. "Those employed should begin formulating a plan to cope with what might come. I think people should aim to have at least two years' worth of their average monthly expenditures saved up. This could include daily living expenses, school fees for their children, rent or their mortgage," he says. "So even if they are let go by their company, having a minimum of two years to find the next job will ensure financial stability for a much longer duration of time and less stress, especially if they have children."

### The bigger picture

Lee never thought he would become a lecturer. He majored in physics and minored in computer science when he was a student in CUHK. "My secondary school physics teacher delivered excellent physics classes, and I was also interested in astronomy," he says. But the young Lee wasn't sure about pursuing a career in science and instead, went on to attain a master of business administration. "I decided to switch to the business field when I realized

I wasn't going to be as bright as Albert Einstein," he laughs.

After graduation, Lee briefly worked as a programmer at Japanese investment bank Daiwa Securities Group for two months before deciding to pursue the MBA. During the course's two years, he was introduced to accounting concepts, which sparked his interest in the subject. He then landed a position at a management trainee programme in finance and accounting at the MTR Corporation in 1992, where he worked for a year in the finance division. He then spent six years working at the Airport Authority (AA) from 1993 to 1999, and attained his CPA qualification in 1996. "At the time, Hong Kong was developing its new airport. I first worked in the finance division, then the commercial and airport management divisions," Lee says. "This is where I developed my interest in the aviation industry."

Lee missed university life, and during his last year at the AA, decided to channel his passion for accounting to teach financial reporting part-time on Saturdays at CUHK. The year 1999 marked the start of Lee's teaching career, as he switched to being a full-time lecturer at CUHK's School of Accountancy until 2006. "I switched to full-time teaching because I was interested in developing my career at a university," Lee says. After leaving to briefly teach accounting at Hong Kong Baptist University, Lee returned to CUHK, but this time to teach accounting and finance subjects at the School of Hotel and Tourism Management. He ultimately went back to teaching at the School of Accountancy in 2014 and has been teaching there ever since.

Lee is proud of his CPA background, noting how it helps him to establish his credibility in the classroom. "I teach in the School of Accountancy, so professional qualifications are a must," he says. "I tell my students that the CPA

qualification helped to transform me into an accounting professional, and how it's a great starting point for them to enter a professional industry. Hong Kong is a financial centre, so I make sure they know that accounting knowledge is an essential ingredient for the city's top performers."

Lee, who is a keen traveller, is determined to spend the next few months writing again. "Last year, I visited Russia and Austria for study trips and returned to my favourite places such as Taipei, Osaka and Bangkok. But since I can't travel now because of COVID-19, this means a bit more time on my hands," he says. He is currently working on two new books, one on purchasing residential property in Hong Kong and the other on facing challenges in career development. "Writing is a way for me to share my views and almost engage in a sort of dialogue with others," says Lee. "That keeps me happy and satisfied."

Lee enjoys sharing life lessons with his students and always encourages them to aim as high as they can. "I always tell my students: 'If you aim higher than average and start thinking about what a company needs to grow and then deliver and address those needs, you'll most likely see an above-average outcome,'" he says. "That is not to say one should work 24 hours a day. Have some hobbies outside of work too."

Busy as he is, Lee firmly believes in the importance of hard work while also striking a work-life balance. When he isn't writing, he enjoys exploring the city's more scenic areas. "I love hiking and love visiting the outlying islands, or less-explored ones such as Tap Mun or Tung Ping Chau," he says. Lee, who never forgot his passion for astronomy, also has a telescope at home. "Usually I'll bring my telescope with me and observe the stars on a clear, dark night. Every time I look up, it really strikes me how small we are. It's a good feeling."



Simon Lee is vocal about the city's property market, which he has addressed in a number of his columns on the *Hong Kong Economic Journal*. Despite last year's social unrest and this year's COVID-19 pandemic, he says housing prices are unlikely to drop, due to the city's land shortage problem. In buying property, he advises young newlyweds with stable careers and at least a decade's worth of savings to start with an entry-level residential unit far from the city centre. By selling their home after property prices increase, they can start moving closer and closer to the city centre and into bigger apartments.



A Gallup Strengths Coach and corporate trainer, on three ways to build a more flexible work culture and the personality traits that can help make it successful



## Flexibility in the workplace through shared talents

**T**here are various advantages to having flexibility in the workplace. It can increase employee satisfaction, help to manage unexpected events, and enable the business to have a faster response to change of all kinds.

For leaders to be effective, the most important element for flexibility in the workplace is mindset. In today's digital environment, there are many alternatives to delivering a project. It is important for leaders to leverage their team's potential and strengths, especially in an environment like the current COVID-19 pandemic. The traditional methods of delivering results have their advantages, but there are also more effective ways and tactics to deliver the same results. The following are three ways to achieve a flexible work environment and some insights on how to identify people with the right strengths to make the change successful.

### 1. Digitalization

In this digitalized age, different technologies are available for businesses to leverage. During the pandemic, many have embraced the power of technology to work from home. Imagine if COVID-19 happened a decade ago – people might not be as comfortable or effective working from home and businesses would have slowed down even more dramatically.

More and more businesses have adapted practices to hold meetings online through various software options, such as Slack, Teams, JANDI, Google Meet, Zoom, U Meeting, etc. The way leaders manage people and projects must therefore also change, as face-to-face work is transitioned online.

Work-from-home practices have also been adapted to increase the efficiency of work processes and provide employees with more flexibility in their schedules. Businesses could potentially also decrease their overheads.

To achieve success, promoting a “visionary culture” in the company is essential. Involve members in the team who are strong in anticipating and visualizing a better future driven by digitalization, and who can inspire others to make the dream a reality. Those people will help the ones who see the present situation as too frustrating to handle the digital change. Since they are energized by seeing the future benefits through digitalization, a manager should encourage them to contribute their ideas about the digital future.

### 2. Solution-based mindset

Facing the COVID-19 pandemic, most businesses have encountered the same problems – operational uncertainty

and a decrease in profits. Many have turned these problems into opportunities.

Those businesses have persistently provided value to people in need and frontline staff during this time. They have also re-evaluated their business and undertaken cost-cutting while taking care of employees during this economic recession. Leaders should therefore be focusing on solutions instead of problems.

Businesses should re-evaluate resources that are available while understanding what opportunities the market provides right now. For example, while the food and beverage industry is believed to suffer the largest impact of COVID-19, they have managed to leverage this opportunity to develop and restructure their business and focus on take-out services.

Find people who have a solution-based mindset. Leverage their talent and let them be the project leaders. They could provide insight in analysing situations, identify potential shortcomings and suggest the necessary adjustments. As a manager, coach or advisor, allow other people to solve their own problems. Be mindful not to rush in and solve things for them as, in so doing, they might hinder development and slow down the change.

### 3. Practice empathy leadership

It is during change or periods of adversity that leaders should further emphasize the significance of listening to their followers. Employees and colleagues are the people who have been tackling the tasks first-hand, and would be the ones who could provide the best insights on how processes could be flexibly changed. They could also provide input for contingency plans and for determining how tasks could be handled differently.

Business leaders should consider holding frequent meetings with colleagues to understand what they are experiencing during this time while considering their opinions to improve business operations. They could also provide them with a survey to assess the impact of the current crisis on them and the business. This will demonstrate that the organization genuinely cares about their colleagues. It could also provide employees with an opportunity to suggest ways in looking at or tackling the pandemic.

Remember that by listening to team members, leaders can show their appreciation and understanding. Practicing empathy will help to build and form a stronger relationship with a team. Leaders who show empathy can form a level of trust with their team as their actions speak louder than words, and also because they acknowledge that they know how the team feels.



## THOUGHT LEADERSHIP

Highlights from the Institute's COVID-19 survey report, which finds out how the pandemic posed challenges for the accounting profession, the impact it had on business operations and on the finance function



## How CPAs reacted to the COVID-19 coronavirus outbreak

Since January, COVID-19 has caused disruption to the work activities of Hong Kong's accountants. In April, the Institute surveyed its executive and senior- and middle-management level members in both business and practice about how the pandemic has affected their operations, revenues, staffing, how they were responding and what support they needed from the Institute. These are some of the highlights of the survey. The full report can be found on the Institute's website.

### Effect on accountants in business

Almost all professional accountant in business (PAIB) respondents reported decreasing revenues, while a small number of respondents reported increases in revenues. Although most of their organizations had not changed their product or service offering, over half of respondents from companies listed outside Hong Kong reported that theirs had. Respondents reported providing more online, and less face-to-face, services as a consequence of changing demands.

Across all PAIB respondents, the most common impact on their organization was restrictions on business travel and meetings, with over 80 percent reporting this. Over half of respondents from companies listed outside Hong Kong or multinationals reported stopping or slowing down new product launches and merger and acquisition activity. Respondents from government, not-for-profits and academia reported less changes than corporate organizations.

In response to the outbreak, over 60 percent of organizations had made changes to their staffing levels. The most common change was to freeze recruitment, although around one third of respondents from non-listed or privately held companies that made employment changes said that mandatory unpaid leave for employees was implemented.

### Effect on accountants in practice

For professional accountant in practice (PAIP) respondents, nine in 10 reported revenues had been impacted. CPA firms with listed clients were more likely to have changed their product or service offering compared to firms without listed clients (36 percent vs. 23 percent). The Institute plans further research into how PAIPs have changed their operations.

Like for PAIBs, the most common impact was restrictions on business travel and meetings (79 percent of respondents from firms with listed clients, and 73 percent from those without). Three quarters of respondents from firms with listed clients also reported that it had impacted their ability to meet reporting deadlines.

Around 60 percent of respondents said their organizations had changed employment, with the most common change being to freeze recruitment. Fewer respondents in practice reported making redundancies or implementing mandatory unpaid leave for employees than the respondents in business.

### Finance function

Two thirds of respondents who worked in or oversaw the finance

function said it had not changed due to the pandemic. However, this was not uniform, and respondents in the public sector and in CPA firms with listed clients reported significantly higher changes.

The most common change to finance functions across all respondents was the use of more online technologies, including cloud computing or cloud accounting software.

### If the disruption continues

Respondents were also asked what their organizations would do if the disruption continued for another six months. Respondents indicated that their organizations would extend or increase work-from-home and flexible working arrangements, and many would also implement stricter financial management policies or adjust employee remuneration.

Around half of PAIB respondents would also increase their travel or meeting restrictions. Regarding PAIP respondents, those from CPA firms with listed clients had more plans in mind than from those without listed clients. This may be due to size differences, with the larger firms with greater levels of resources more able to implement policies such as, for example, implementing stricter financial management policies and to make redundancies.

### Support from the Institute

Respondents were asked in an open question to list the support they needed from the Institute during the pandemic. The most frequently mentioned suggestions were for more continuing professional development (CPD) events, more information, issuing guidance and fee support.

The Institute has held nine free webinars for members since the start of the pandemic. As well as free CPD, webinars have replaced face-to-face events to enable members to keep learning during the pandemic.

Through the COVID-19 – CPA Information Centre webpage and regular emails, the Institute provides members with the information they need to tackle the challenges of the pandemic, and keep track of local and international developments.

The Institute has released guidance on financial reporting, auditing, and assurance engagements. It has also issued general guidance on managing financial distress and fraud.

New concessions for members and students for 2021 have also been announced. The Institute will continue to explore ways to help its members through the challenging economy and prepare for the future.

### Continued monitoring

This survey focused on the short-term impacts of the crisis. As the local situation has stabilized, with the number of new cases being regularly reported zero in Hong Kong, the focus is beginning to change to the economic recovery. To assess how the pandemic has affected the accounting community, there will be a follow-up survey examining the longer term consequences later in the year.

# Risk-based supervision of accounting professionals concerning anti-money laundering and counter-terrorist financing compliance

A look at the developments in the Institute's risk-based AML/CTF supervisory plan

The Hong Kong Institute of CPAs is the regulatory body of accounting professionals, defined in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) as CPAs and practice units.

In its report on the results of its last mutual evaluation of Hong Kong that took place in 2018, the Financial Action Task Force (FATF) recommended that the Institute should continue to develop its assessment of sectoral money laundering/terrorist financing (ML/TF) risks at the individual institutional level and prepare a more robust risk-based supervisory plan. In addition, the Institute was recommended to conduct appropriate monitoring and follow-up activities to ensure compliance by accounting professionals with anti-money laundering and counter-terrorist financing (AML/CTF) requirements.

In response to the FATF's comments, the Institute is developing a more robust risk-based supervisory plan, covering constituents wider than practice units. The plan will have to be in place for sufficient time to enable the Institute to provide data to demonstrate effective implementation when Hong Kong submits its mutual evaluation follow-up report to the FATF in 2022.

## Risk-based supervision

The FATF has made a series of recommendations to territories to

combat ML/TF. Recommendation 28 is that accountants should be subject to adequate AML/CTF regulation and supervision based on the level of ML/TF risk. The objective of the Institute's risk-based AML/CTF supervisory plan is therefore to make the Institute capable of performing an ongoing supervision of accounting professionals by:

1. Categorizing constituents based on their ML/TF risk profiles;
2. Determining the nature, timing and extent of supervisory actions for each risk category; and
3. Carrying out reviews of constituents based on their ML/TF risks and performing targeted reviews for higher-risk constituents.

## Risk-based supervision plan

The Institute has had an AML/CTF compliance monitoring programme covering practice units since October 2018. However, many professional firms provide a wider variety of professional services than practice units, which primarily offer audit and assurance services and make other professional services available through a network or affiliated professional service entities. These other professional services may involve preparing for or carrying out for clients' "Specified Transactions" (as defined in the AMLO) that give rise to higher ML/TF risks and therefore, as detailed in FATF Recommendation 28,

should be subjected to more intensive supervision and monitoring.

In order to comply with the *FATF Recommendations*, the Institute will enhance the following three aspects of its risk-based supervision:

### Widening the scope

Expanding the scope of monitoring activities to cover not only practice units but also other professional firms set up by CPAs or practice units. However, given that it is expected that the potential extended coverage will be significant, the expansion will be done on an incremental basis.

Initially, the plan is to extend the scope of supervision from practice units to cover: (a) network firms located in Hong Kong; and (b) professional service entities whose owners, shareholders or partners are all CPAs, CPAs (practising) or other practice units, unless they fall under the jurisdiction of the Registrar of Companies (CR) as a trust or company service provider (TCSP) licensee and other AML regulators in Hong Kong (referred to as "Hong Kong network and professional service entities" below).

### Risk profiling

To enable the Institute to collect sufficient relevant information to start developing a more proactive risk-based AML/CTF supervisory plan and to properly discharge its supervision function, a questionnaire



will be distributed to all members and practice units, tentatively towards the end of 2020 (as part the 2021 annual membership renewal exercise), to request information pertaining to all CPAs by way of business that provide professional services, practice units and Hong Kong network and professional service entities. CPAs who work in businesses or as employees in professional firms will not be required to undertake this exercise.

Based on information received, an assessment of the ML/TF risk at the institutional level of each relevant CPA practice unit and Hong Kong network and professional service entity will be made, and each one will be classified into risk categories for the purposes of determining the nature, timing and extent of supervisory actions.

#### **Targeted reviews for higher-risk constituents**

The frequency and intensity of supervision for each relevant CPA practice unit or Hong Kong network and professional service entity will be dependent on its ML/TF risk profile and from what is known about the quality of its AML/CTF controls. More comprehensive and frequent reviews will be performed on higher risk entities. For lower risk entities, interviews and desktop reviews on a less-frequent basis may be sufficient for AML/CTF compliance review purposes.

In order to achieve the above, the Institute has plans to impose a clear

professional obligation on those charged with governance of practice units and related CPAs, to make sure that Hong Kong network and professional service entities (including TCSPs that are not required to be licensed by the CR), which are under their control, comply with the relevant AML/CTF requirements in the Institute's *Guidelines on AML/CTF for Professional Accountants* (Part F of the *Code of Ethics for Professional Accountants*). The effect of this change will be that when the Institute performs a practice review, the reviewer will assess whether the practice unit has taken adequate steps to ensure its affiliated Hong Kong network and professional service entities has complied with the AML/CTF laws and regulations. The Institute will continue to explore ways, including through legislation, to provide appropriate powers for the Institute to directly inspect Hong Kong network and professional service entities and other controlled entities that are expected to be subject to its AML/CTF supervision plan.

The Institute will provide further updates to members and practice units on the development of the risk-based supervision plan in due course. Members and practice units are reminded to ensure that appropriate AML/CTF policies, procedures and controls are in place within both their practice units and affiliated Hong Kong network and professional service

entities to comply with the AML/CTF laws and regulations and to protect themselves from ML/TF activities.

If you have any questions, please contact the quality assurance hotline 2287-7850 or email [qualityassurance@hkicpa.org.hk](mailto:qualityassurance@hkicpa.org.hk).



*This article is reprinted from the Institute's Financial Reporting, Auditing and Ethics Alert Issue 34*



# Taxation of charities

## A look at the IRD's revised tax guide for charitable institutions

On 21 April 2020, the Hong Kong Inland Revenue Department (IRD) published a revised version of its *Tax Guide for Charitable Institutions and Trusts of a Public Character*, addressing various key issues concerning taxation of charitable institutions.

This is an evolving area of tax law in Hong Kong as the importance of the work done by charitable institutions is increasing. It is, therefore, crucial for taxpayers in the sector to understand the basis on which they will be taxed. The revised tax guide provides practical guidance on the IRD's views in respect of assessing taxable profits derived by charitable institutions as well as on specified requirements to qualify for the tax exemption provided under Section 88 of the Inland Revenue Ordinance (IRO).

### Background

Section 88 of the IRO provides that approved charitable institutions are exempt from profits tax (as well as stamp duty and business registration fee) where certain conditions are met. While a charity can seek to obtain such a tax exempt status from the department, the IRD is not empowered to register or govern charities. The charity status is important in practice not only because of the tax exemption position, but for the ability to accept donations, which may be deductible for tax purposes by the donors if certain conditions are met.

Section 88 does not contain a clear definition of what charitable purposes are, with the IRD using the well-known "four heads of charity" to characterize charitable purposes. These were derived from an 1891 United Kingdom House of Lords decision, while there are more recent court cases and actions in the U.K., where the Charity Commission (a governance body regulating charities) has evolved the definition of "charitable purposes."

In addition to those traditional

charities such as hospitals, youth organizations, schools, religious bodies, etc. there is an increasing number of charities being established in Hong Kong, as the community is willing to give support to the underprivileged groups. There are also charities or foundations established by corporate groups as part of their corporate social responsibility initiatives. As the IRD is not empowered to regulate charities, the revisions have not focused on providing guidance on what are "charitable purposes." The IRD has, instead, attempted to provide more clarity on the tax exemption status in the revised guide.

### Overview

The IRD has recently updated the guidelines twice, firstly in connection with the tax exemption available to charities in September 2019, and secondly by providing more examples to clarify their position in April 2020. The key highlights from the revised guide are summarized below.

#### Carrying on a business

The guide confirms that a charity "carrying on a trade or business" in Hong Kong should generally be chargeable to profits tax, unless it can fulfil specified conditions under Section 88 of the IRO.

Regarding the question of whether a charity is "carrying on business" in Hong Kong, the IRD provides that while the totality of facts would be considered, the key to determining whether the activities carried on by a charitable institution amount to the "carrying on of a business" are: (i) the intention of carrying on a business; (ii) the nature of the activities performed, particularly whether they have a profit-making purpose; (iii) whether such activities are repeated and regular or organized in a business-like manner (i.e. including the keeping of books, records and the use of a system); (iv) the size and scale of the institution's

activities including the amount of capital employed in them; and (v) whether the activities are better described as a hobby, or recreational activities.

#### Exemptions from profits tax

The guide reiterates that a charity can be exempt from profits tax in respect of the profits from a trade that contributes directly to an expressed object of the charity (i.e. a primary purpose of the trade/business) and/or a trade ancillary to the primary purpose trade that contributes indirectly to successful furtherance of the expressed object (i.e. an ancillary trade/business). The revised guide also considerably expands the list of example activities that may be exempted from profits tax.

The guide also includes some relevant comments regarding charges by charitable institutions for services provided or usage of facilities. Specifically, the IRD confirms that if a charge is imposed on the provision of services or usage of facilities by a charitable institution, the said charge must fulfill the purpose of public benefit, such as non-exclusion from the poor or sufficient provision must be made for the poor to benefit in order for income earned to qualify for exemption under Section 88.

#### Financial investments

The guide further elaborates on financial investments made by charitable institutions. Specifically, it clarifies that if a charity invests by way of a discretionary account and the investment manager will act as the agent of the charity, the determination of whether the investments made by the investment manager on behalf of the charity are of capital or revenue nature is a question of fact and degree, which should take into account all the surrounding circumstances, including the investment mandate or pre-defined model portfolio and that the "badges of trade" should remain relevant for answering the question.

The revised tax guide establishes that if such financial investments directly further the charity's objects and generate financial returns, such returns may not be chargeable to profits tax. Specifically, it confirms that the following income, gains or profits are exempted from profits tax:

- Dividends received from a corporation which is subject to Hong Kong profits tax;
- Interest on, and any profit made in respect of a bond issued under the Loans Ordinance or the Loans (Government Bonds) Ordinance, or in respect of an Exchange Fund debt instrument or in respect of a Hong Kong dollar-denominated multilateral agency debt instrument;
- Interest, profits or gains from qualifying debt instruments (issued on or after 1 April 2018);
- Interest that is derived from any deposit placed in Hong Kong with an authorized institution, excluding interest received by or accrued to a financial institution;
- Interest on and any profit made in respect of renminbi sovereign bonds and non-renminbi sovereign bonds; and
- Interest on and any profit made in respect of debt instruments issued in Hong Kong by the People's Bank of China.

### Rental income

In respect of a charity leasing out its properties to earn rental income, which would be applied for charitable purposes, the revised guide provides guidance on whether such activities amount to the carrying on of a business and if the respective rental income should be subject to profits tax.

The guide clarifies that if the property letting is not carried out in the course of the actual carrying out of the charity's expressed objects, the rental income earned should be chargeable to profits tax. On the other hand, if the property letting is exercised in the course of the actual carrying out of the charity's

expressed objects and the rental income is used solely for charitable purposes and not expended substantially outside Hong Kong, the rental income should not be chargeable to profits tax. This has notably wide implications to charities in Hong Kong, as it is fairly common that founders of charities would contribute immovable properties to charities as seed money for generating a sustainable income stream to support the ongoing operations of the charities.

The IRD has expanded the scope of property letting by charitable institutions to cover letting out of properties to other charities, which chargeability to profits tax of the respective rental income may be subject to the aforementioned considerations.

### Tax obligations

With regards to tax obligations applicable to charity institutions, the revised tax guide establishes that if the institution fails to comply with the IRO including informing the IRD about its chargeability to tax, the commissioner of the IRD may compound the relevant offence under Section 80(2) (i.e. accept a monetary settlement instead of sanctioning the institution of a prosecution) and may also impose additional tax under Section 82A of the IRO. Approved charitable institutions should be mindful of their reporting obligations, and the consequences of non-compliance.

Finally, it is worth noting that the revised tax guide reminds charities that, as an employer, they are required to report details of remuneration made to their employees for each year of assessment, commencement and cessation of employment and departure from Hong Kong similar to the general salaries tax obligations applicable to companies in Hong Kong. This is not a new reporting obligation, but an important point for charities to ensure compliance with the IRO.

### Observations

An update to the tax guide for charitable institutions is an undoubtedly welcome move in view of providing clarity to charities' obligations under the IRO, where a lot of charities are operating under a simple structure that may not have appropriate resources that are familiar with tax matters.

The fact that this revision to the tax guide has come only a few months after the last revision is quite rare. Yet, this indicates that the IRD is committed to providing further clarity and to enhance certainty in matters concerning the taxation of charitable institutions and their business activities in Hong Kong. The IRD's clarified views on what income is exempt from tax will surely have an impact on charities' financial capability of deploying resources for charitable purposes. Failure to comply with the tax and reporting obligations may potentially bring significant implications on an organization's reputation, and may jeopardize the charitable organization's status.

Charities should consider seeking professional assistance to assess and review their current tax position in face of the new guidelines issued by the IRD and consider whether a restructuring is needed.



*This article is co-authored by **Alice Leung**, Corporate Tax Advisory Partner, and **Soraia Almeida**, Corporate Tax Advisory Senior Manager, of KPMG China.*



**HKICPA** *Source*



Visit **HKICPA** *Source*, an online job portal  
for members of the **Hong Kong Institute of CPAs**

**HKICPA** *Source* contains a wide range of opportunities in  
accounting, business and finance in Hong Kong and beyond

**HKICPA** *Source* your re*Source* for jobs



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



[www.hkicpa.org.hk/en/members-area/hkicpasource/](http://www.hkicpa.org.hk/en/members-area/hkicpasource/)



# How to maintain an effective risk management system amid the COVID-19 crisis

A look at how enterprises can adopt contingency plans to tackle the coronavirus

The continuing COVID-19 pandemic has far-reaching effects on lives, businesses, and economies worldwide. Local and national governments are implementing anti-pandemic measures, such as the temporary closure of production and business operations, compulsory quarantine procedures on visitors, and even locking down cities. These policies are aimed at curbing the spread of the virus and mitigating its adverse impacts. Besides, many enterprises are looking for safe protection of their people and trying to enhance their resilience amid the ongoing financial losses and business disruptions caused by the pandemic.

It remains uncertain when the pandemic will be ultimately contained. In the event that the outbreak of the coronavirus is not effectively controlled in a foreseeable time, the business operations and financial conditions of enterprises may be materially and adversely affected. To ensure business continuity, having a contingency plan is essential. The current situation has demonstrated that it is crucial to have a prompt response in order to mitigate impacts and other risks and to get well-prepared for the further development of the pandemic and possible scenarios.

## Contingency plans

The Hong Kong initial public offering market has been disrupted to a certain extent by the pandemic, which has led to delays in the listing plans of some enterprises. The Stock Exchange of Hong Kong Limited has requested listing applicants and their sponsors to disclose the contingency plan for maintaining business continuity and the precautionary measures in maintaining a hygienic working environment. It is highly important for all enterprises to develop a detailed contingency plan, carry out a thorough risk assessment on the potential impact of COVID-19, and provide prompt responses to alleviate business disruption.

Not only should enterprises develop and implement a contingency operation plan for the ongoing pandemic, but also for the occurrence of force majeure including

acts of God, epidemics, natural disasters and social unrest. The contingency plan should include the responsibilities of key personnel in each business unit, procedures for restoring the operation to normal, the use of technology for maintaining effective communications and normal business operations, training programmes necessary for personnel to execute contingency procedures, etc.

## Disclosure of the impact of pandemic to business

The listing applicants and their sponsors are also required to critically assess and disclose the impact of COVID-19 on the listing applicants' supply chain, business continuity, financial performance and future business growth prospects in the listing documents. Such an assessment is helpful for all enterprises, as it is critical to have a timely and transparent reporting of risk information for enabling proper, prudent decision-making and ensuring effective business continuity in a protracted crisis, like the current pandemic.

In addition, enterprises should conduct a risk assessment on the likelihood and impact of force majeure to reassess the effectiveness and appropriateness of the contingency plan. Following the completion of the risk assessment, enterprises are recommended to tailor-make risk response strategies to cope with specific issues. In order to achieve a comprehensive upgrade of the risk management system, enterprises should consider adopting the following key measures:

- *Establishing an emergency decision-making team:* To set up a risk response team or crisis management committee for prompt decision-making during any major or emergency issues, in order to formulate plans and ensure the fastest possible decisions can be made in various situations.
- *Conducting assessments on organizational exposure:* To carry out a thorough risk assessment on business operations, compliance, sustainability as well as health and safety, to

assess the level of possible business interruption and the relevant impact.

- *Staying up-to-date with the latest information and maintaining effective communication:* To gather the latest risk information and advice on the pandemic situation from time to time, develop agile corresponding risk management solutions and keep the relevant suppliers, clients, stakeholders, investors and staff informed.
- *Preparing for an appropriate and feasible risk response:* To select the suitable risk responses to avoid or reduce the risks; and to adopt mitigating measures such as re-prioritizing the allocation of resources to unaffected business lines, exploring opportunities for collaboration and developing the diversification of business products and service offerings. Enterprises should acquire sufficient insurance coverage to minimize losses incurred from any breach of contract/rules and regulations, adopting flexible working policy and requiring staff to declare their health conditions.
- *Monitoring and reviewing the adopted risk responses:* To observe the further developments of the COVID-19 pandemic and closely monitor the implementation of the risk responses on an on-going basis, then modify and improve the risk responses as necessary.

Given the varying circumstances of each sector, general risk assessment procedures and basic risk mitigating measures might not be applicable to all enterprises. Enterprises should maintain an agile, robust and effective risk management framework to enhance corporate resilience and sustainability towards any unprecedented challenges.



This article is contributed by **Roy Lo**, Managing Partner, and **Winnie Leung**, Senior Manager, at ShineWing Hong Kong

# TECHNICAL NEWS

## The latest standards and technical developments

### Members' handbook

Update no. 238 contains:

- Amendments to Chapter A, Part 4B of the *Code of Ethics for Professional Accountants* to conform with the corresponding revisions to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (Including Independence Standards)* on terms and concepts used in International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*; and
- Revisions to Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* to conform to the latest regulatory and financial reporting requirements.

Update no. 239 contains an amendment to Hong Kong Financial Reporting Standard (HKFRS) 16 *Leases* that provides a practical exemption for lessees for rent concessions occurring as a direct consequence of the COVID-19 pandemic.

### Financial reporting

#### Institute's comments on International Accounting Standards Board (IASB) exposure drafts

The Institute has submitted comments on:

- Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform – Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
- Exposure Draft ED/2020/3 *Classification of Liabilities as Current or Non-current – Deferral of Effective Date: Proposed amendment to IAS 1*

#### Illustrative examples on COVID-19-related rent concessions

The Institute has published examples on rent concessions to illustrate the application of the amendment to HKFRS 16 *Leases* to common rent concession fact patterns observed in Hong Kong during the COVID-19

pandemic.

#### Educational guidance for COVID-19 financial reporting issues

The Institute has published educational guidance highlighting key COVID-19-related financial reporting considerations for 2020 financial reporting periods.

#### Summary of COVID-19 financial reporting considerations

The International Federation of Accountants' (IFAC) webpage summarizes key financial reporting challenges and implications from COVID-19, and highlights various relevant resources available that can assist with some of the financial reporting challenges and issues.

#### May IASB Update

The May IASB Update, highlighting the tentative decisions reached by the IASB, is now available.

#### IASB Investor Update Issue 20

Issue 20 of *Investor Update*, highlighting recently introduced International Financial Reporting Standards (IFRSs), events and publications of interest to investors, is now available.

#### Investor education webcast on understanding estimated credit loss information

In this webcast for investors, the staff of the IASB use illustrative examples to explain expected credit loss recognition, measurement model, and related disclosures that entities prepare under IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

#### May IASB podcast

This monthly podcast focuses on the IASB's discussions on the amendment to IFRS 16 *Leases* at its supplemental meeting and discussions at its regular May meeting.

### Auditing and assurance

#### Invitation to comment

The Institute is seeking comments on the International Auditing and Assurance

Standards Board (IAASB) Exposure Draft *International Standards on Auditing (ISA) 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs* by 14 August.

#### Revisions to Auditing and Assurance Technical Bulletin

The Institute has revised Auditing and Assurance Technical Bulletin 3 *Implementation Guidance on Revised HKSIR 400 Comfort Letters and Due Diligence Meetings* to provide guidance to reporting accountants when providing change period comfort where there are changes in accounting policies during the change period.

#### IAASB's guidance for auditors during the COVID-19 pandemic

As part of the IAASB's ongoing response to COVID-19, guidance related to subsequent events and auditor reporting have been issued. More information and helpful links can be found on the IAASB's COVID-19 webpage.

#### IAASB's revised work plan

To account for COVID-19's impact on the IAASB's work, the IAASB has reconsidered the timelines for its projects and revised its work plan for 2020-2021.

#### IAASB's implementation support on ISA 540 (Revised)

The IAASB's illustrative examples for auditing accounting estimates illustrate a selection of requirements from ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*, which may be scaled down or scaled up when auditing simple or complex accounting estimates.

#### Summary of COVID-19 audit considerations

The IFAC webpage summarizes key audit challenges and implications from COVID-19, and highlights various general resources available that can assist with some of the audit challenges and issues.

### Global messaging to inform conversations with key stakeholders related to COVID-19

IFAC has produced messages highlighting how the profession is working to address challenges for companies and their auditors during crisis and into recovery, which will assist professional accountancy organizations in their stakeholder dialogue.

### Audits involving cryptoassets

The Public Company Accounting Oversight Board has issued *Audits Involving Cryptoassets Spotlight* discussing some of the issues auditors and audit committees should consider about audits involving cryptoassets, such as Bitcoin and other digital currencies.

### Ethics

#### The Institute's submission

The Institute commented on the following IESBA exposure drafts:

- Proposed Revisions to the Non-Assurance Services Provisions of the Code;
- Proposed Revisions to the Fee-Related Provisions of the Code

### IFAC Exploring the IESBA Code 6: Conflict of Interest

Professional accountants are required to properly manage conflicts of interest that arise. This sixth instalment of *Exploring the IESBA Code* highlights key aspects of the code's Conceptual Framework to deal with conflicts of interest.

### Corporate finance

#### The Institute's submission

The Institute issued a submission on 11 May, in response to the consultation proposals by Hong Kong Exchanges and Clearing (HKEX) on corporate weighted voting right beneficiaries.

### SFC consultation paper on REIT Code amendments

The Securities and Futures Commission published *Consultation Paper on Proposed Amendments to the Code on Real Estate Investment Trusts (REIT)*. This proposes a number of enhancements to the code, which aim to strike a balance between facilitating market development and competitiveness on the one hand, and

ensuring the protection of investors' interests and market integrity on the other. The deadline for responding is 10 August.

### Taxation

#### Annual meeting with the Inland Revenue Department

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the Inland Revenue Department (IRD) took place on 15 May. At the meeting the IRD confirmed the extended due dates for lodging profits tax returns for the year of assessment 2019-20. These are:

Accounting date code	Extended due date	Further extended due date if opting for e-filing
"N" code	30 June 2020	14 July 2020
"D" code	17 August 2020	31 August 2020
"M" code	16 November 2020	30 November 2020
"M" code - current year loss cases	1 February 2021	No further extension

#### Announcements by the IRD

Members may wish to be aware of the following matters:

- Taxpayers and employers reminded of their obligations
- List of Qualifying Debt Instruments (as at the end of 31 March)
- Order on double taxation arrangement with Macau gazetted
- Legislative Council question on two-tiered profits tax rates regime
- Legislative Council question on taxation mechanism for demand-side management measures for the property market
- Tax returns for individuals issued
- Tax information – Tax exemptions in respect of relief measures under the Anti-epidemic Fund

- Alert regarding fraudulent website
- Interest on Tax Reserve Certificates
- Stamp Duty Ordinance amended to lower transaction cost for primary market exchange-traded fund activities
- Stamp Duty statistics

### Legislation and other initiatives

#### Updated requirements relating to AGMs, etc.

From 8 May the requirements in relation to the exemption for annual general meetings and other meetings under the Prevention and Control of Disease (Prohibition on Group Gathering) Regulation (Cap. 599G) have changed. The government has published an updated guidance on its COVID-19 Thematic Website.

#### Further exemptions from compulsory quarantine under Cap. 599C

The government announced on 8 June that directors or executives of certain companies listed on the HKEX who can meet the eligibility criteria may apply for exemption from the compulsory quarantine arrangement when they arrive at Hong Kong from the Mainland, subject to a pre-determined quota.

#### Anti-money laundering notices

The updated list of terrorists and terrorist associates designated by the United Nations Security Council (UNSC) was gazetted on 22 May pursuant to the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575). See the related UNSC press release.

For the current lists of terrorists, terrorist associates and relevant persons/entities under UN sanctions, members should refer regularly to the Institute's dedicated webpage. Other useful documents and guidance can also be found on the same page.



Please refer to the full versions of Technical News on the Institute's website:  
[www.hkicpa.org.hk](http://www.hkicpa.org.hk)



## WORK AND LIFE

CPA chefs



Desmond Chun,  
Senior Tax  
Associate at  
PwC, making a  
steak sandwich  
with yellow  
onions and  
Dijon mustard  
for dinner.

**“My trick is to cook one side first, letting it rest for five minutes, and then cooking the other side. This will guarantee an even cook through the steak.”**



# COOKED TO PERFECTION

For some people, cooking is a chore. For others, it's the perfect excuse to set aside valuable time, find and work with the freshest ingredients, and cook up an impressive meal. Three CPA home cooks share with [Jeremy Chan](#) their culinary journeys, the secrets to making their favourite dishes, and how anyone can cook delicious food at home

Photography by Anthony Tung

It was Desmond Chun's failed attempt at making steak as a high school student that taught him the importance of patience and technique. "I kept moving the steak around and flipping it too often," remembers Chun, Senior Tax Associate at PwC and a member of the Hong Kong Institute of CPAs. That steak ended up being overcooked, but he decided to try it anyway. "It was far too chewy and wasn't very good. I only had two bites then put it aside."

Unfazed, he practiced on the grill, and soon realized what he had done wrong the first time. "When you keep on flipping a steak on a grill, the leftover char easily sticks to the meat," he explains. "The trick is to not move the meat. Once you lay it down on a grill or pan, let it sit there and don't disturb it until you need to flip it."

Chun is now a passionate home cook who uses his free time to cook recipes new and old. To him, cooking is more than a pastime – it's something he constantly looks forward to. "I enjoy chopping ingredients, cooking and plating food, and of course, eating what I've made," he says. "And when the dish comes out well, I can't wait to cook it again." Indeed, even

the act of preparing food can help calm the mind, according to Chun. "There's something therapeutic about chopping ingredients into perfect, symmetrical shapes," he adds.

Chun, who was born and raised in Vancouver, was introduced to cooking in his high school's home economics class, where he learned how to make desserts and pastries such as muffins, meringues, crème brûlées and savoury dishes such as beef stroganoff. Outside of school, he enjoyed trying out different restaurants around the city and cooking on his barbecue grill at home. "Back home, I would use the grill almost every day during the summer to cook steak, lamb chops, chicken, scallops and halibut. I loved getting a nice sear on the outside with the perfect grill marks," he says.

Since moving to Hong Kong in 2019 for work, Chun has continued his passion for cooking at home, even amid his busy work schedule. Though he doesn't have a grill, he has taken this opportunity to focus on perfecting other dishes such as Vietnamese pho, spaghetti alle vongole and Hainanese chicken rice, and making them from scratch.

But his favourite thing to cook is still steak. Chun says the secret to producing a juicy steak each time is to not rush. “My trick is to cook one side first, letting it rest for five minutes, and then cooking the other side. This will guarantee an even cook through the steak,” he says. “If you cook the other side immediately, you’ll end up with one side that is more cooked than the other because the meat is still hot.” Because there are various cuts of meat, cooking steak requires constant practice, he adds. “You can’t use the same cooking methods on different cuts such as tenderloin, ribeye or strip loin. They all have varying levels of fat. If you cooked a ribeye, which is high in fat, on a grill, this will induce flames and you might burn the steak.”

On most days, Chun prefers to prepare healthier options such as baked vegetables, tofu and eggs and usually packs lunch for work, noting how it is more cost-efficient and that he feels less tired after eating his own home-cooked food. “I’ve also been trying to lay off the carbs – I packed on a bit of weight during the work-from-home period,” he laughs. He says cooking from home doesn’t need to require too much time, and that those new to cooking can consider buying an oven. “An oven is your best friend if you want a quick and easy meal such as baked chicken, fish, lamb chops or roasted vegetables,” he says. “Pop them in the oven for 20-25 minutes and you have your dinner served. You can even take a shower, clean the house or wash the dishes while everything is cooking.”

### The quest for flavour

Michelle Chu’s love for cooking Korean cuisine stemmed from her fascination with the Korean language and culture. It was her interest in Korean dramas that led her to begin teaching herself the language more than a decade ago. “I didn’t want to depend on subtitles anymore, so I thought I’d start learning Korean,” says Chu, Assurance Director at Moore and an Institute member. She began visiting the country, sometimes up to six times a year, and started taking formal lessons with a teacher in 2012. “I’m now able to converse with native Korean speakers, but I still find it difficult to read a Korean newspaper,” she adds. One lesson, Chu’s teacher had cooked and brought a non-spicy version of *tteokbokki*, or Korean rice cakes, to class. Chu greatly enjoyed the dish but found it too spicy. “They were delicious, so I asked her for the recipe and tried to make it myself,” she says.

Eager to try out the dish, she went out to purchase the ingredients and closely followed the recipe, cooking the rice cakes in a hearty, creamy sauce. “I think that was the first time I really cooked something,” she says. “It was quite easy to make, and that led me to think that it was easy to make Korean food.”

Since then, Chu has taught herself to cook and prepare classic Korean dishes such as *japchae*, stir-fried sweet potato noodles, *galbijim*, a beef short rib stew with carrots, chestnuts and turnips, *ganjang saeu*, raw shrimp marinated in soy sauce, and also *banchan*, smaller side dishes such

as beansprouts, pickled cucumbers or spinach, which are served alongside cooked rice.

Chu notes the cooking process for Korean cuisine is rather straightforward, but the challenge she faces is finding the right ingredients in Hong Kong. “I visit South Korea quite often so when I go, I also bring back all the ingredients I need,” she says. “Of course, I can’t travel there right now, so I’ve had to carefully look for those ingredients in Hong Kong.” She frequents Kimberley Road in Tsim Sha Tsui, a street famous for its concentration of authentic Korean restaurants and shops, and also known as Hong Kong’s own “Little Korea,” and keeps her eyes peeled for hard-to-find yet essential vegetables such as *kkaennip* or perilla leaves. “We use this vegetable to wrap certain meats or fish,” she explains. “I can’t always find what I want as the shops only import certain ingredients at different times of the year. They’re also much more expensive because they are imported – sometimes three times the price.”

With every approaching weekend, Chu looks forward to cooking, and says she has been hosting more regular family potluck lunch or dinner gatherings. “I’ve been staying in more and eating at restaurants less because of COVID-19, so I’ve been cooking pretty much every week,” she says. Besides from Korean food, Chu also cooks Italian food such as gnocchi and baking cookies and cheesecakes.

She says she fully enjoys the process of buying and cooking



Michelle Chu, Assurance Director at Moore, enjoys cooking over the weekend. Here, she is making *japchae*, a Korean noodle dish.



**“It’s satisfying  
when you’ve  
cooked something  
and your family  
and friends say  
that it’s delicious.”**

## WORK AND LIFE

CPA chefs



Kenneth Lam, Associate Director, Advisory at Grant Thornton, enjoys cooking seafood, especially along with his son. Here, they are making clams boiled in butter and rice wine.

**“I try to cook healthy food day to day, usually a good balance of vegetables and meat – but I love cooking seafood the most.”**





ingredients, and also doesn't mind the task of cleaning afterwards. But the real pleasure of cooking, Chu notes, is sharing her food with others. "It's satisfying when you've cooked something and your family and friends say that it's delicious," she says.

Chu will be challenging herself this year to make *samgyetang*, a hot ginseng soup boiled with a whole chicken stuffed with garlic, glutinous rice, red dates and ginseng. "It's not that hard to make, but it requires a lot of time and effort. I need to find good ginseng first," she says. Her advice for new home cooks is to stick to cooking what they like. "Don't feel pressured to cook something popular," she says. "Cook what you genuinely want to eat and share it with other people." Doing this allows her to unwind after a long week of work. "It helps to relieve me of stress – especially when I'm making a dish I *truly* love."

## No place like home

When Kenneth Lam moved out of his family's home after getting married, he found himself longing for the food he grew up eating. "I didn't cook much before getting married because I had the best chef at home – my mother," says Lam, Associate Director, Advisory at Grant Thornton and an Institute member. Being in a family of home cooks also meant Lam had little opportunity to set foot in the kitchen. "My mother cooks the best Chinese cuisine and my brother cooks Western food quite well, while my grandmother and uncles all take turns cooking for family dinners."

Lam grew up eating mainly home-cooked Cantonese dishes such as stir-fried vegetables with pork, as well as seafood such as

steamed fish in soy sauce, pan-fried prawns, crabs fried with ginger and spring onions and clams boiled in butter and rice wine. "Over dinner, my family would talk about how and where they found each ingredient, how they cooked it and how they wanted to improve on that dish in the future," he says.


Desperate to recreate the dishes he ate back at home, Lam began cooking more for his wife and five-year-old son. Relying on the knowledge he gained from those family dinners, he started cooking the same Cantonese classics he grew up eating, and eventually found the courage to replicate the seafood dishes his mother used to make. "I try to cook healthy food day to day, usually a good balance of vegetables and meat – but I love cooking seafood the most," says Lam. "Crabs, clams, fish, lobster – I love anything from the sea."

In cooking for his family now, he seeks inspiration from what he finds at the market first. "It all depends on what fresh and seasonal ingredients I find in the market that day," he says. "But every time I spot large crabs, I find it too tempting to resist." Cooking seafood such as crabs and getting the flavours in the sauce right wasn't an easy task for Lam at first, leaving him to do his own research. "I would first buy the ingredients, and then look for the recipes on my phone going home," Lam adds. "Or I would have to call my parents and ask 'how do I cook this? Could you share any hints?' Thanks to their advice, I usually manage to cook well in the end."

Lam likes to get his son involved in the cooking. They recently made a pizza from scratch together. "During the work-from-home phase, there was more time to experiment and cook more dishes, so pizza-making became a bit of a

family activity," Lam says. After he prepared the dough, his son picked out his favourite ingredients from their fridge for the pizza toppings. "We put what we could find that day such as shrimp, crab sticks, cheese and sausages," he says. "Since then, my son's been asking to cook more." Lam took this opportunity to do more baking, and says he has been baking pastries such as coconut buns, muffins and even birthday cakes. "My son always helps me to measure the ingredients and beat the eggs – he loves doing that," he adds.

Lam is busy with work, and though the family has a helper to help with the cooking during weekdays, he tries to squeeze in every opportunity to cook. "Sometimes, I'll ask our helper to prepare the ingredients in advance, so I can cook once I get home from work," he says. But during weekends, Lam says he is at the ready to prepare breakfast, lunch, tea and dinner for his family and says this is a good way to also ensure that everyone eats healthier food. "I prefer stir-frying, baking and steaming instead of deep-frying," he says. "I also use less oil and salt and replace that with herbs and spices."

Lam says his parents have already tried his food, and have fortunately commended his efforts at trying out their seafood recipes. "We had a potluck gathering where I cooked clams in rice wine, and they said it was really good," he says. He knows it can be difficult finding the right time to cook, so one way to get cooking, Lam suggests, is to host a party. "Plan a dinner party and invite your friends. This will force you to cook," he says. "And make sure they love food – because the happiest moment for me as a chef is seeing people enjoy my food." 



A 2016 study published in the *Journal of Positive Psychology* reports that people who take on creative tasks such as cooking or baking note feeling more relaxed in their everyday lives. The study followed 658 people for about two weeks and found that in the days after cooking and baking, participants reported higher levels of happiness, creativity and enthusiasm.



## YOUNG MEMBER OF THE MONTH

Hyde Tse

---

**HYDE TSE** Assistant Finance Manager at  
A.S. Watson Group







Hyde Tse serves as a bridge between the finance team and departments throughout the company. She tells *A Plus* the key to effective communication and how her CPA qualification continues to help succeed in her day-to-day role

**What is your current role and responsibilities? How is it going so far?**

An Assistant Finance Manager at A.S. Watson Group, I'm responsible for managing the full profit and loss (P&L) statement, as well as providing action plans to both qualitative and quantitative observations for one of our business units, PARKnSHOP. There are many business units under A.S. Watson Group such as PARKnSHOP, Watsons and Fortress. Since financial report analyses require a certain expertise, I am the communication channel between our finance team and different departments, and provide relevant insights to different parties. I was promoted in September 2019 and I'd say that the role is going well – I'm still pushed to perform my best on a daily basis. I have also been responsible for the audit function of the business unit since the day I joined, which allows me to work with different members of senior management to understand the unique difficulties each function is facing. I am required to provide tailor-made recommendations to manage risks, and that gives me a good opportunity to build my network and understand the business unit from top to bottom. On top of that, I also need to perform various ad-hoc analysis to do with promotion effectiveness, stock management and cost-saving plans.

**What are the most rewarding and challenging aspects of your role, and why?**

I would say the most challenging aspect is managing my time. On top of my daily tasks, I receive a lot of phone calls and emails every day. It is about determining which issues could be solved with an email, which tasks need to be delegated to my team and which tasks require meeting with management. Luckily, I have a trustworthy and fun team, which is one of the most rewarding aspects of the job. I spend half my day at work, so I appreciate the connections and bonds I have with my colleagues. It can be hard to have friends in a company, but I do believe that in addition to helping you progress in your career and life, colleagues can be friends too. I've met a lot of people in this company who have been very supportive, especially when I've had to deal with a lot of pressure.

**What inspired you to become an accountant?**

I liked maths a lot when I was a primary school student and remember always being praised for my high test scores through secondary school, so that motivated me to study accounting in university. I decided to begin my career at Deloitte while studying accounting at the Hong Kong Polytechnic University after hearing about the exposure I could get from working at an audit firm. It was tough working there – there's a steep learning curve – but the experience is rewarding. Not only did I learn a lot about different industries through interviews with various audit teams, but I also improved my communication and time management skills.

**Which of the continuing professional development (CPD) courses did you find most helpful in your day-to-day work or in getting you to the next stage of your career?**

The Institute's CPD courses concerning International Financial Reporting Standard (IFRS) 16 *Leases* have really helped me with the technical aspects of my job. PARKnSHOP manages a large number of stores in Hong Kong, and the revised IFRS 16 impacts the assets and liabilities of each one. I gained a better understanding of the standard through the CPD course, and that has helped me to forecast how the standard will affect P&L statements.

**How do you think the Qualification Programme (QP) has helped you in your career so far, or prepared you for your current role?**

The QP is a basic requirement for all CPAs, and I believe the programme has greatly helped with my critical thinking. For example, the knowledge I gained from Module C business assurance taught me how to carefully look at businesses and their processes as an internal auditor. This helped me to ask the best questions when interviewing management and also knowing what documents to look for in an audit. Also, Module A financial reporting also greatly helped me grasp P&L statements and accounting policies. Overall, I feel the knowledge I gained from the QP has given me the confidence to communicate with the finance team.

# SPOTLIGHT ON DREAM HOLIDAYS

Institute members share where they would like to travel as soon as they can

## Nagoya, Japan

“As soon as countries ease their quarantine policies, I look forward to visiting Nagoya. I hope to visit the famous Nagoya Castle, the Historic Villages of Shirakawa-go and Gokuyama, the Toyota Automobile Museum and also enjoy shopping in the Osu Shopping Arcade. During this vacation, I want to spend more time at Legoland Japan with family too,” says Ho.

- Frank Ho, Financial Controller of Charming Holidays Limited



## Brisbane, Australia

“My wife’s Australian so Brisbane will be our first place to go to after all this, just to see our Australian family and friends!” says Gallie.

- David Gallie, Compliance Director at Zetl



## Phuket, Thailand

“I want to visit Phuket, Thailand. I was originally planning to go, but had to cancel my trip back in April. When I do go, I want to visit Coral Island, do some snorkelling around Patong Beach and walk around the night market! Above all, I look forward to eating Thai food and relaxing on the beach,” says Tse. (Read more about Hyde Tse in Young Member of the Month on page 52.)

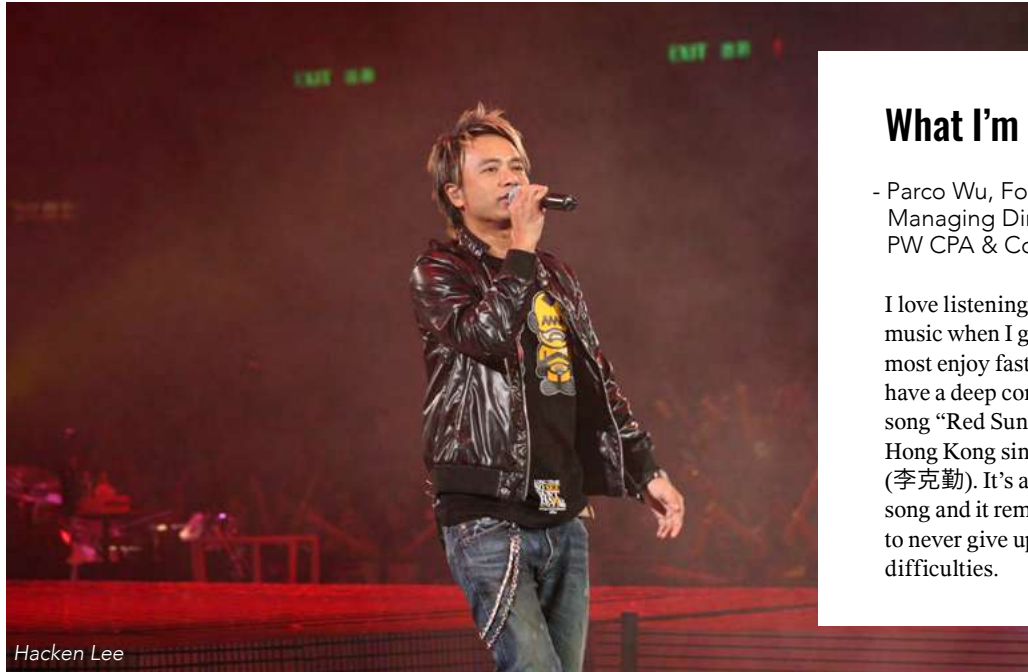
- Hyde Tse, Assistant Finance Manager at A.S. Watson Group





# EYES & EARS

Institute members on what music they are currently listening to and what books are worth reading



Hacken Lee

## What I'm listening to

- Parco Wu, Founder and Managing Director of PW CPA & Co.

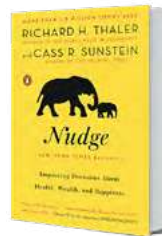
I love listening to Canto-pop music when I go running, and most enjoy fast-paced songs. I have a deep connection to the song "Red Sun" (紅日) sung by Hong Kong singer Hacken Lee (李克勤). It's a very encouraging song and it reminds listeners to never give up when facing difficulties.

## What I'm reading



Recently, I read *The 100 Simple Secrets of Successful People* by David Niven. The book presents the findings of scientists who have studied successful people and goes into how those individuals found their success. Readers will uncover a set of practices, principles and beliefs that are necessary for success, no matter what their goals in life are. This book's a good choice for those rethinking their lives.

- Frenda So, a semi-retired accounting tutor



I am always inspired by the ideas in *Nudge: Improving Decisions about Health, Wealth and Happiness* by Richard H. Thaler and Cass R. Sunstein on how our day-to-day decision-making is influenced by different mental biases, and how our choices can be changed by behavioural interventions or "nudges." These behavioural insights are useful in our workplace and daily lives where we need to make choices or help other people to make better choices. I highly recommend this book.

- David Chan, Senior Economist at the Office of the Government Economist



COVID-19 has brought opportunities and challenges for the company overseen by the world's richest man, Jeff Bezos. There's no doubt that Amazon continues to disrupt the way business is done in any industry it touches, be it retail, cloud computing, or media and advertising. For his book *Bezonomics: How Amazon Is Changing Our Lives and What the World's Best Companies Are Learning from It*, author Brian Dumaine talked to dozens of Amazon insiders to gain unprecedented insight on the principles by which Bezos achieves dominance, including customer obsession, extreme innovation and long-term management.

- Recommended by A Plus editors

## Unclaimed fortunes await us

Hong Kong's humorist on the importance of claiming what is rightfully yours



Nury Vittachi

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

**T**ake a big chunk of your savings out of the bank. Put the cash on a random surface in your house. Leave for several years, during which evolution will cause paper, old keys and junk mail to evolve on all flat surfaces. Forget it's there and move to a different city.

That happens everywhere, involving huge sums in cash, forgotten accounts, and unclaimed payouts. There may be as much as US\$80 billion of "forgotten" money in the United States alone, a recent study in *The New York Times* revealed. (And that's probably just in a jar inside Warren Buffet's fridge.)

Reporters asked Hong Kong's finance chiefs earlier this year whether they would raise welfare payouts for people in the city. Civil servants replied that people in the city already failed to collect payments to which they were already entitled.

In Hong Kong this year, the government set aside more than HK\$160 billion for businesses affected by COVID-19 – but some groups such as CLP and the Hong Kong Jockey Club have not collected their share, and the same is true of entire industries, including banks and airlines.

Unclaimed cash is an intriguing niche for accountants. For example, one named Paul Thompson has made a specialty of finding unclaimed cash for the beer industry, a personal interest of his (yes, he is based in the United Kingdom, how did you guess?). "The government's research and development tax credits scheme is available to any business investing money in innovation, but there is a misconception that it is only available in scientific applications," he told the *Express & Star*, a regional newspaper in the United Kingdom. "Breweries don't realize that the development of new flavours of beer could make them eligible to apply for tax credits with an average claim being around £10,000 (about HK\$95,000)."

Not a bad payout for adding a drop of vanilla essence to your brew, taking a sip and grimacing.

Meanwhile, the Hong Kong government has a huge stock of unclaimed goods that have been confiscated for one reason or another. For years, they have quietly got rid of them through regular auctions, but because of the pandemic, these have been cancelled. So the goods are piled high in storage units and lists are published on the Internet.

Your correspondent took a look, and sadly reports that they are not exciting enough to change out of your pajamas for. Example of a typical list: "1) Old fridge. 2) Old air-conditioner. 3) Flower pot. 4) Floor standing fan (may not work). 5) Four-faced Buddha. 6) Kodak film camera."

But occasionally the list does conjure up intriguing images of where that particular collection may have come from. One current list features: "1) Dulcimer. 2) Violin. 3) Guitar. 4) Lute." Who owned these? A time traveller who had recently visited Shakespearean England?

Other lists are decidedly unattractive: "1) Trinkets (Assorted Colours). 2) Clothing (Used)." A trinket is defined as "a small trivial thing which has no real value except perhaps ornamental," which is a perfect description of many young people of my acquaintance.

In Wuhan, a businessman who runs a delivery company reported that his warehouse was filled with unclaimed packages dating back to the strict lockdown in January. He is offering a free bowl of Wuhan's traditional hot, dry noodles to anyone who comes to collect their packages.

Researching this subject is oddly cheering. Publications are full of gloomy reports about the economic downtown, but fail to mention that our entire society is awash in large amounts of unclaimed money and goods.

Anyway, if companies in Hong Kong really don't need the money to which they are entitled, they could always claim the stuff and forward it to the needy, such as magazine writers, to pluck a totally random example from the air.

While awaiting such news, this reporter is heading to the local bar to start a research and development unit. Cheers.



Stay up to date with the  
latest news and events from  
the **in**stitute by **f**ollowing us  
on social media

**CPA**

**in** LinkedIn



**f** Facebook



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





Success symbol



Success ingredient

Everybody in business wants to celebrate success. With a member of the Hong Kong Institute of CPAs on your team, you'll be one step closer to popping the champagne cork.



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

**CPA: The Success Ingredient**

[www.hkicpa.org.hk](http://www.hkicpa.org.hk)