A+

Driving business success

Issue 7 / Volume 14 / July 2018

Plus:

Profile
Anthony Lau, Executive Director of the Hong Kong Tourism Board

Business across the border
How foreign companies can succeed in Mainland China

Life across the border
The lives of Institute members based in the Mainland

These CPAs under 35 share their path to partnership

STAND OUT CPAs

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2018
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"I was pleased to welcome back to the Institute Past President and current Director of Audit for the government, David Sun, to a luncheon organized as part of the Institute's Corporate Social Reponsibility programme."

Dear members,

I want to begin by offering my personal congratulations to the Institute members who received honours in the 2018 Government Honours List. Past President Brian Stevenson received a Gold Bauhinia Star and past ex-officio Council member, and previous Director of Accounting Services, Martin Siu a Silver Bauhinia Star. Both men have been dedicated to the profession and Hong Kong for many years and I am glad to see them receive the recognition they deserve. I was humbled to receive the Chief Executive's Commendation for Community Service, and plan to continue serving our community for many years to come.

This month, the Institute launched its *2018 Career Survey*. Combining the fifth membership survey with the first ever studentship survey, the career survey provides valuable insights into the professional development of all those in the profession. The surveys focused on three topics, employment prospects, earning power, and CPA qualification and development. I was pleased to see that both members and students felt the Qualification Programme was adequate for meeting their job requirements. With the new QP on the way, I hope that this continues to be the case, and that the programme remains useful and relevant in the age of "Accounting Plus."

The surveys also investigated the support employers provide for continuous professional development. Students reported lower levels of support than members, and particularly notable is the low level of support for development reported by both members working in business and students. The Institute will continue to work with employers to ensure it is offering courses of use to members in all fields, and to make these courses more accessible through digital channels. I invite members to read the report for themselves.

I was pleased to welcome back to the Institute Past President and current Director of Audit for the government, David Sun, to a luncheon organized as part of the Institute's Corporate Social Responsibility programme. In my introduction at the Non-Governmental Organization Directors' Luncheon, organized by the Hong Kong Council of Social Service and sponsored by the Institute's Charitable Fund, I spoke of the role the Institute plays in utilizing accountants' expertise in financial management, internal control and corporate governance to support NGOs and give back to the community. I also spoke on the importance of the CPA for NGO programme to ensure good corporate governance.

Relatedly, the Institute's 19th Best Corporate Governance Awards, promoting good corporate governance across Hong Kong entities, are open for entry until 13 August. The awards are Hong Kong's most well-established, dedicated corporate governance awards and exist to encourage and promote good corporate governance disclosures and practices.

The awards also represent a key part of the Institute's continuous advocacy for better corporate governance and are an important way of tracking improvements in corporate governance in our financial markets. New awards this year are available for self-nominating smaller companies and public sector and not-for-profit organizations – as part of the Institute's efforts to support corporate governance in all sections of the economy. I look forward to reading through the entries and taking part in the judging process before hosting the awards event in November.

Finally, as we enter August I hope that those of you heading on holiday have an enjoyable break.

Eric Tong
President

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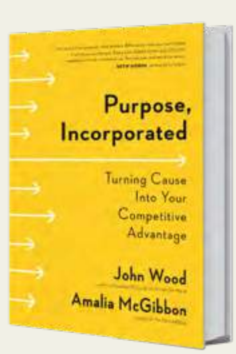

Driving business success

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

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Institute news

Career survey highlights Hong Kong's mobile, dynamic accounting profession

Hong Kong CPAs remain in high demand, while employers face recruitment challenges, according to the Hong Kong Institute of CPAs' *2018 Career Survey Report*, released this month. The report combines the results of the Institute's 2018 membership and studentship surveys, and focused on three topics: employment prospects, earning power, and CPA qualification and development.

Respondents were found to be moving between accounting firms, from firms to the corporate environment, or changing fields, indicating that accounting is a very dynamic and mobile profession. In the year prior to the survey, 25 percent of member respondents and 35 percent of student respondents changed jobs. Of these, 65 percent of members and 76 percent of students received a pay rise.

On changing jobs, 25 percent of members and 35 percent of students have changed employment, and of them, one-third have changed from traditional to non-traditional accounting functions including advisory, consulting, specialist services, legal, investment and finance, information technology, or learning and development.

"The accounting profession opens doors to rewarding and varied career paths for the young professionals," said Jonathan Ng, the Institute's Executive Director of Qualification and Education. "In this new era of Accounting Plus, the accounting profession has developed to be something much more than traditional accounting and auditing. CPAs today combine their accounting knowledge with higher-order analysis skills and technical abilities to improve professional offering and add value to businesses."

Another key finding is that the profession continues to be one of the highest-paying professions in Hong Kong. The studentship survey revealed that university graduates enjoy fast-growing remuneration after joining the profession, with average annual remuneration reaching HK$283,000 by the third year as Qualification Programme (QP) students. With the improving economy, the percentage of membership reporting pay rises increased from 84 percent to 87 percent year-on-year, while the percentage of member respondents receiving a bonus has increased from 79 percent to 80 percent.

In terms of views on the QP's effectiveness, 65 percent of newly qualified member respondents said that QP training was adequate to meet their job requirements, while 79 percent of student respondents believe that QP was useful for their career development.

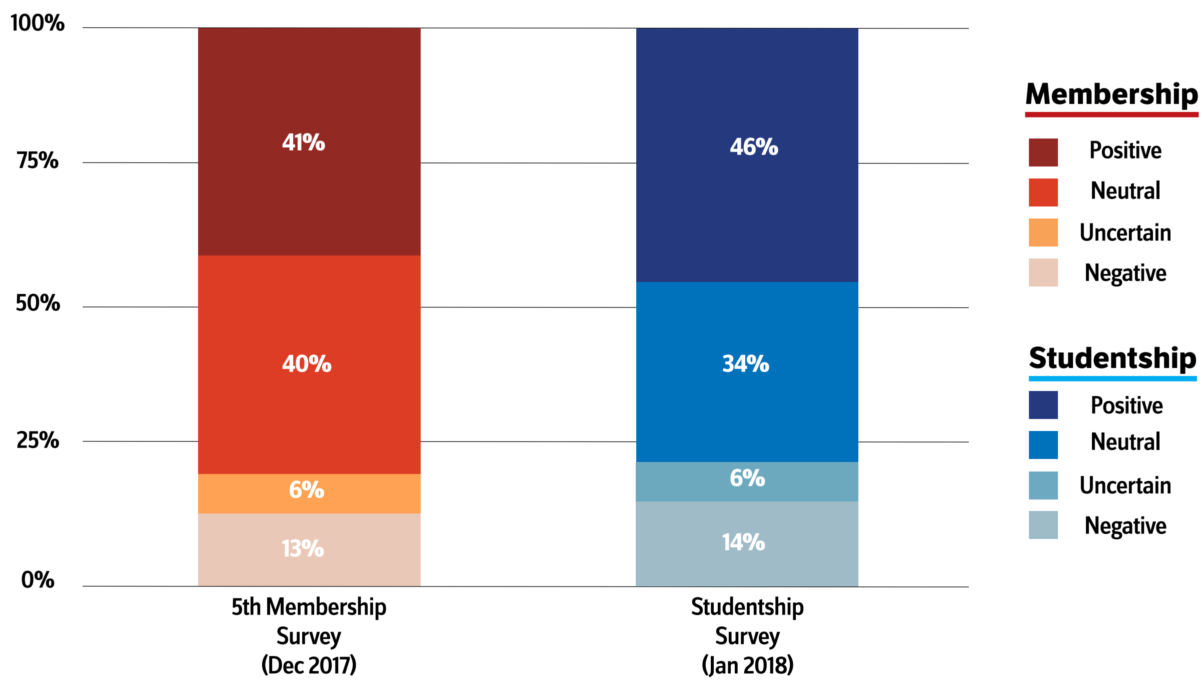
Respondents also expressed dealing with hiring challenges, with more than 80 percent of member respondents at senior and middle-management level at the Big Four encountering difficulties in recruiting, while 96 percent found it challenging to retain talent.

The membership survey was conducted from November to December 2017 with 3,310 respondents, and the studentship survey was conducted from December 2017 to January 2018 with 3,887 respondents. The full report is available on the Institute's website.

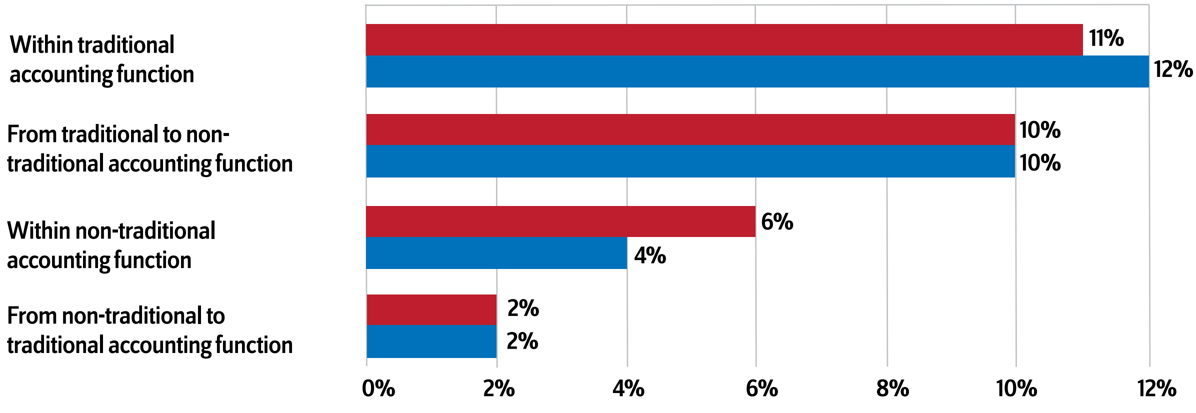
Employment change in the past 12 months

	Membership survey	Studentship survey
Percentage of respondents who changed employment	25%	35%

Employment market for professional accountants



Member and student respondents who changed field



Data from the Institute's Career Survey 2018

Institute news

David Sun, Director of Audit of the Hong Kong government and past president of the Institute

Best Corporate Governance Awards 2018 invites entries

The Institute invites companies and organizations in the private and public sectors to submit entries for the Best Corporate Governance Awards (BCGA) 2018. This year, the BCGA includes a new award for good corporate governance practices, which is based on self-nominations and aimed at encouraging smaller companies and public sector/not-for-profit organizations to improve their corporate governance. The deadline for entries is 13 August. More details on the awards, the judging criteria and application process can be found in the "BCGA 2018" section of the Institute's website.

Institute supports NGOs on governance

On 11 July, the Institute sponsored and hosted the latest non-governmental organization (NGO) Directors' Luncheon of the Hong Kong Council of Social Service (HKCSS), as part of the Institute's role as sole strategic partner of the federation's NGO Governance Platform Project. Special guest David Sun, Director of Audit of the Hong Kong government and a past president of the Institute, attended the event and spoke on NGO governance and public trust to over 150 participants.

Welcome remarks were given by Kennedy Liu, Vice Chairman of the HKCSS, Alex Wong, Assistant Director (Subventions) at the Social Welfare Department, and Institute President Eric Tong. The luncheons allow NGO board members to share their experience among themselves and with Accountant Ambassadors, and aim to promote good corporate governance among social services organizations.

This Institute's social responsibility programme "CPA for NGO" also hosted an evening workshop on budgets, forecasts and financial planning on 6 July. The workshop aimed to provide NGO treasurers and board members with adequate knowledge relating to reserve policy, auditing, internal control and governance. Thirty-one of the Institute's Accountant Ambassadors supported the event by sharing their experiences and discussing case studies.


CPA for NGO evening workshop

Institute co-hosts roundtables on global standard setting

As part of the outreach activities undertaken by the Monitoring Group in connection with its proposals on changes to international auditing and ethical standard setting, the Institute co-hosted two roundtables in late June.

These international discussions could result in major changes that impact the auditing and ethical standards followed by Hong Kong auditors. The roundtables were chaired by a senior staff member of the United Kingdom's Financial Reporting Council, and were attended by representatives of the Institute, Hong Kong and Singapore auditors, the Hong Kong Stock Exchange, the International Federation of Accountants, the International Forum of Independent Audit Regulators, the Global Accounting Alliance, the International Ethics Standards Board for Accountants, the Japanese and Korean professional bodies and the Japanese Financial Services Authority.

2018 Honours List

The Institute sends its heartiest congratulations to the following members who received honours from the Hong Kong government for their distinguished service. Congratulations to Past President Brian Stevenson (Gold Bauhinia Star), and past ex-officio Council member Martin Siu (Silver Bauhinia Star). Institute President Eric Tong received the Chief Executive's Commendation for Community Service.

FCP's strategic finance course

The strategic finance module of the Financial Controllership Programme will run on 18 August, 25 August and 1 September. The module, led by Eddie Mak, Group Treasurer at Kerry Logistics Network, aims to enhance the technical skills and practical knowledge required of a financial controller in strategic finance, including capital planning, bank financing, treasury and risk management, debt capital market and hedging products, FinTech, equity capital market and mergers and acquisitions. Interested members should enrol by 8 August.

Disciplinary findings

Baker Tilly Hong Kong Limited and Au Yiu Kwan, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

Baker Tilly Hong Kong Limited (BTHK) audited the 2016 financial statements of a Hong Kong listed company, EganaGoldfeil (Holdings) Limited and its subsidiaries. Au was the director who had substantial involvement in the audit.

The Institute received a referral from the Financial Reporting Council (FRC) about auditing irregularities in relation to the audit of the 2006 financial statements in respect of certain sales and purchase transactions and the impairment assessment of (i) intangible assets; (ii) available-for-sale financial assets; (iii) other receivables; and (iv) promissory notes. The respondents admitted the complaints against them.

Decisions and reasons: All the respondents were reprimanded. The Disciplinary Committee ordered BTHK and Au to pay penalties of HK$250,000 and HK$100,000 respectively. In addition, the respondents were ordered to pay costs of HK$156,669.90, which include the costs of FRC. When making its decision, the committee considered the particulars of the breaches committed in this case, the parties' submissions, and the respondents' conduct throughout the proceedings.

Tang Wai Hung, CPA (practising), Chow Chi Kit, CPA (practising) and W.H. Tang & Partners CPA Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute.

W.H. Tang issued an unqualified auditor's opinion on the 2012 financial statements of a Hong Kong listed company, China Technology Solar Power Holdings Limited (formerly known as Soluteck Holdings Limited) and its subsidiaries. Tang was the engagement director and Chow was the engagement quality control reviewer of the audit.

The Institute received a referral from the FRC about non-compliance with financial reporting standards and auditing irregularities in relation to an acquisition recorded in the 2012 financial statements. The deficiencies concerned (i) measurement of convertible bonds issued as consideration; (ii) recognition and measurement of identifiable assets acquired, liabilities assumed and the related goodwill; and (iii) impairment assessment of goodwill. The respondents admitted the complaints against them.

Decisions and reasons: All the respondents were reprimanded. The Disciplinary Committee ordered Tang, Chow and W.H. Tang to pay penalties of HK$100,000, HK$75,000 and HK$150,000 respectively. Further, the practising certificates issued to Tang and Chow shall be cancelled from 24 June 2018 and the same shall not be issued to Tang for two years and Chow for 18 months. In addition, the respondents were ordered to pay costs of HK$103,483.20, which include costs of the FRC. When making its decision, the committee took into account the circumstances of the case, including the particulars of the breaches, the respondents' personal circumstances and their conduct throughout the proceedings.

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

Developers rush to sell property with new tax

A new vacancy tax plan is forcing property developers to sell unsold units faster, reported the *South China Morning Post*.

The tax, at 200 percent of a newly built unit's rateable value, which is the estimated annual rental value of a property, aims to prevent developers from hoarding newly built flats, and will apply to all homes that have been unsold for more than six months. Announced by Hong Kong Chief Executive Carrie Lam on 29 June, the tax aims to boost supply and cool the world's least affordable property market.

Following the announcement, developers Paliburg Holdings and Regal International have taken HK$10 million off the price of one of their unsold villas in Yuen Long to HK$29.4 million, according to the *SCMP* this month. A private developer owned by Kwok Kwei-wo and Tang Yuk-kwei discounted two units of their village houses in the same area by about 20 percent. To date, the completed units remained unsold for two years.

Illustration by Harry Harrison

Deloitte to create Asia Pacific firm

Deloitte is merging its operations in Australia, China, Japan, New Zealand, and South East Asia, to create Deloitte Asia Pacific, which will become operational by 1 September. With hopes to create a US$10 billion business by 2022, the firm plans to allocate US$321 million in extra investment to speed up the transition. The new alliance will have a total of 44,500 professionals across the new business. Chief Executive Officer of Deloitte Australia Cindy Hook will take up the role of CEO of Deloitte Asia Pacific, and said that the move will allow Deloitte to increase its scale across the Asia-Pacific region and enhance its client service capabilities. In 2016, the firm combined its United Kingdom and Swiss operations with its Belgian, Danish, Dutch, Finnish, Icelandic, Norwegian and Swedish member firms, to create Deloitte North West Europe.

Tax credit phase-out triggered for Tesla

California-based carmaker Tesla is the first to trigger the reduced incentive for electric cars in the United States, *Bloomberg* reported. The US$7,500 federal tax credit for electric vehicles is set to start phasing out for the Model S, Model X, and Model 3 after 31 December, according to the company's website. After that date, the tax credit will be halved during the first half of 2019 and halved again during the second half, assuming there's no change to the programme. The tax credit, put in place during the Obama administration, was an incentive for car buyers to purchase electric vehicles and to encourage more manufacturers to adopt new technology. Tesla buyers eager to purchase the US$35,000 Model 3 are to be affected the most, as the car is still slated for a mid-2019 release.

EY buys cryptocurrency technology

EY acquired cryptocurrency technology as part of its strategy to expand the firm's blockchain capabilities-related capabilities, the firm announced this month. The firm acquired certain technology assets and related patents from Elevated Consciousness, a San Francisco-based startup that focuses on digital currency, and specializes in the Andy Crypto-Asset Accounting and Tax (CAAT) tool, which connects with multiple cryptocurrency exchanges and wallets to provide better visibility into cryptocurrency transactions and inventory.

KPMG: 1MDB audits are unreliable

KPMG last month informed Malaysia's scandal-hit state fund 1Malaysia Development Berhad (1MDB) that its annual audits from 2010 to 2012 do not provide a "true and fair" assessment of the fund. According to *Reuters*, with no access to relevant documents, the Big Four firm retracted the audit reports. "According to KPMG, they reached the decision after going through the recently declassified auditor general's report on 1MDB and other relevant documents that were withheld from them by the previous management," 1MDB said. KPMG also told 1MDB that if the documents had been disclosed to the auditors, the audit firm believed the information "would have materially impacted the financial statements and the relevant audit reports." The wealth fund, which was established in 2009 by former prime minister Najib Razak, faces a global corruption probe, with authorities alleging that US$4.5 billion has gone missing.

A world of numbers

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The number of additional years women in accounting and finance have to work to reach executive level, compared with their male counterparts, according to a study commissioned by the ACCA and conducted by King's College London.

25%

The tariff United States President Donald Trump plans on imposing on US$200 billion in foreign-made cars later this year. Critics believe tariffs would drive up the cost of all cars and pass those inflated prices on to consumers.

£ 17.9 million

The value of fines imposed by the United Kingdom's Financial Reporting Council, up 24 percent from the previous year. The accounting watch dog faces pressure to crack down on failures at audit firms following to the sudden collapse of the construction company Carillion in January.

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

2018 PAIB CONFERENCE

The Day After Tomorrow: A Reality Check for Accountants Today

Date: Saturday, 8 September 2018

Time: 9:00 a.m. – 1:00 p.m.

Venue: HKICPA Auditorium, 27/F, Wu Chung House
213 Queen's Road East, Wan Chai, Hong Kong

Theme: Updating PAIBs of the key challenges that they may face as well as the opportunities ahead

(For enrolment)

Ruth Porat

1 PwC U.K. drops landlines for mobile phones

Staff at PwC in the United Kingdom are expected to switch from landlines to mobile phones at the end of summer in a bid to be more efficient, reported *BBC News*. With the exception of meeting rooms, reception and security use, all landlines at office desks are to be removed. "With landline usage falling rapidly, we believe that a more mobile-focused policy is a more efficient way of working," said a PwC spokesperson. He added that many staff members have already moved away from using their landlines. The number of landline numbers at businesses in the U.K. had fallen 35 percent to 6.4 million by the end of last year, down from 10 million in 2010, according to Ofcom.

3 Pinterest pins IPO plans

Social media company Pinterest is getting close to US$1 billion in advertising revenue, as it targets an initial public offering (IPO) in the second quarter of 2019, *CNBC* reported. Having achieved US$500 million in ad sales in 2017, the company is on track to double that this year, people familiar with the matter told *CNBC*. The company has a current valuation of US$13 billion-US$15 billion, based on secondary market trading, multiple people say. It could join high-valued and high-profile consumer start-ups that are aiming to hit the market around the same time, such Uber and Airbnb. Pinterest users "pin" images they like so that followers can view visual boards on subjects such as recipes and design.

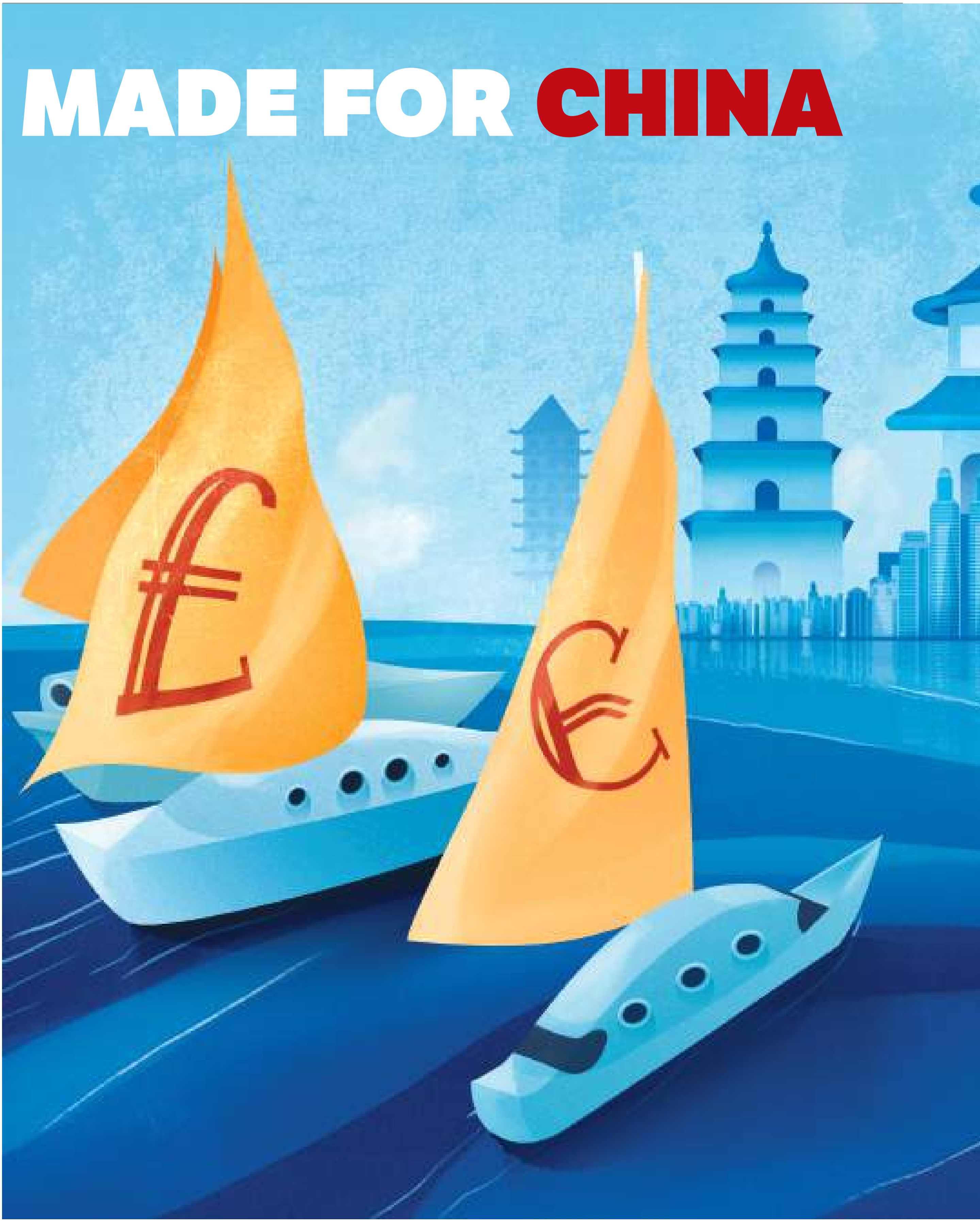
2 EY U.K. bins single-use cups

Plastic cups and single-use paper cups will be banned across all EY offices in the United Kingdom by the end of the year, as the firm aims to tackle pollution and environmental damage. The use of plastic cutlery and catering consumables will also be banned, in an attempt to reduce the firm's consumption of single-use plastic items by more than 7.7 million pieces per year, according to Caroline Artis, EY's Senior London Partner and environmental lead. "Feedback from our people has highlighted that plastic pollution is one of their biggest environmental concerns and I am so proud of this initiative supporting our continued efforts to build a better working world," she said.

4 A stands for advertising, says Alphabet CFO

Ruth Porat, Chief Financial Officer of Alphabet, Google's parent company, reassured investors this month that the company is still spending its money on its core business: advertising, *CNBC* reported. The American multinational conglomerate beat expectations with a 24 percent gain on its second quarter earnings, however capital spending nearly doubled year-on-year to US$5.5 billion. In the earnings call, Porat said: "I think one of the most important points to underscore [on investment priorities] is that one of the biggest opportunities for investment continues to be in our ads business where we're continuing to invest meaningfully given the opportunity set that we see there."

MADE FOR CHINA



With Mainland China continuing to open up to foreign companies, Nicky Burridge finds out the challenges they face to achieve business success in the world's second-largest economy

Illustrations by Gianfranco Bonadies

Global insurance broker Willis Towers Watson recently announced it had become the first fully licensed foreign broker to be allowed to transact all types of insurance business in Mainland China. The company, which was one of the first foreign brokers to enter the market in 1994, received approval to expand its operating permit in May. The move was made possible by a series of measures announced by China's President Xi Jinping to open up the financial market to foreign operators.

Though the Mainland is continuing to open up its market to foreign companies, regulatory hurdles remain and businesses need to understand its rapidly evolving business landscape in order to succeed there.

Ongoing liberalization

At the 19th National Congress held in October 2017, President Xi pledged to further open up China's economy. Since then, several initiatives have been announced. Nick Marro, Analyst at The Economist Intelligence Unit, says: "There have been a number of liberalizations to the foreign investment regulatory regime, as well as measures introduced to help encourage and incentivize more foreign direct investment (FDI) into the Mainland."

The financial services sector and automotive manufacturing industry are set to be the biggest beneficiaries. Liberalization measures include allowing foreign banks to set up branches and subsidiaries, and removing the foreign ownership cap for banks and asset managers. Insurers are also being given the green light to increase their stake in joint ventures to 51 percent, with a view to removing the cap altogether within three years. Restrictions on the business scope of foreign insurance brokers have also been lifted.

In the automotive sector, foreign ownership limits on joint ventures are

being gradually removed, meaning overseas companies will no longer face market entry restrictions. Since 1994, China has required foreign automakers to enter into ventures with domestic partners to operate in the country, with the overseas company holding no more than 50 percent.

With this, competition among car makers will intensify, says Siao Tin Soh, Analyst at GCiS China Strategic Research. "Foreign automakers may find it easier to do business in China. Tesla recently announced plans to build a Gigafactory in Shanghai, which will be capable of producing 500,000 vehicles a year at its peak, and also act as an R&D centre for the company. Chinese carmakers, in turn, will be under pressure to strengthen their own brands. In practice, we expect to see a mix of different operating models when the ownership limits are eventually being phased out. For instance, despite the relaxation of ownership limits, Volkswagen will continue with the joint-venture operating model in China."

The liberalization measures will start with foreign ownership restrictions on new energy vehicles, such as electric cars, being lifted by the end of this year, with limits on commercial vehicle joint ventures ending in 2020 and ones for passenger vehicles in 2022.

China is both the world's largest automotive manufacturer and its largest consumer. Automotive manufacturing is important to Mainland China and has been identified as one of 10 priority sectors under the "Made in China 2025" initiative, which aims to transform Chinese industry through research and development (R&D) in high-tech fields.

Improving conditions

While the finance and automotive sectors may be the main beneficiaries of recent announcements, measures are also improving conditions for companies in other sectors. "In sectors like petrol station infrastructure building, we are seeing some interest by major foreign oil and gas companies in formulating strategies to capitalize on the relaxation of limits on the number of allowed petrol stations," says Soh.

"You have to get approval from different departments – and this imposes challenges on foreign businesses."

Earlier this year, Premier Li Keqiang urged efforts to promote business registration reform, separating business licenses from operation permits to improve the business environment. The measure is likely to be welcomed after China's position in the World Bank's Ease of Doing Business ranking has remained unchanged at 78th for the past three years. In May, it was announced that the amount of time required to start a business in municipalities, sub-provincial cities and provincial capitals will also be reduced this year from an average of more than 20 to 8.5 workdays.

"Throughout 2017 and into 2018 we have seen a focus from central policymakers on improving the operating environment for both foreign and local companies, namely through broad policy directives at 'optimizing' the business environment. This could include strengthening commercial regulations, to help with regulatory clarity, as well as offering more types of financing opportunities to small- and medium-sized enterprises, among other support policies," says Marro.

But he cautions that many of the changes are relatively modest, and will take several years to be fully implemented.

Significant challenges

Despite some barriers being reduced, obstacles remain. "Foreign companies looking to enter sectors already dominated by domestic companies will continue to face challenges," says Soh. "In some automotive component sectors, domestic component suppliers will continue to have an edge over foreign component suppliers because of their long-standing supply relationships with China's automakers. To benefit from opportunities arising from the easing of market access requirements, foreign suppliers may need to change their existing sales strategies accordingly – and this will take time."

Hong Kong Institute of CPAs member Francis Au, Chief Financial Officer at EKPAC Holding, a procurement solution provider for cutting-edge technological equipment and financing to key services providers in the Mainland, where it has had an office since 1910, points out the challenge brought by each province and local government having its own rules and regulations. "You have to be really familiar with the local policies. You have to get approval from different departments – and this imposes challenges on foreign businesses," he says. Au adds that with the differences between Mainland law and international law, it is important that foreign entities engage local professionals, such as CPAs and lawyers to help them navigate these complexities.

Mabel Chan, Deputy Managing Partner of Grant Thornton Hong Kong and past president of the Institute, agrees: "Starting a business from scratch in the Mainland is quite challenging. It has a very

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In the World Bank's Ease of Doing Business ranking, economies are ranked on their ease of doing business, from 1–190. China's current position is at 78. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local company.

complex system." Chan has served on the Institute's working group on co-operations with Mainland small- and medium-sized practices. She adds that in addition to the varying rules and regulations in different provinces and cities, there are also more than 100 different types of taxes in Mainland China. Companies also need to make contributions to various schemes such as social security, insurance and retirement provision. "You really have to take into account all of these factors before you decide whether to enter the Mainland," she says.

Marro points out that companies still face stringent licensing measures, which are likely to hamper foreign direct investment inflows, and some sectors have even recently become more restricted. "Investment into the technology sector is increasingly being looked at through the lenses of national security, meaning investments in cloud computing, big data and other areas of emerging technology will be subject to different, and at times difficult, licensing and security reviews," he says.

The current United States-China trade tensions could also lead to U.S. companies facing greater regulatory scrutiny over their operations in the Mainland. "Assuming that trade tensions continue to intensify, greater regulatory scrutiny will become more pronounced – non-tariff barriers like regulatory scrutiny and longer custom processing times are already prevalent in China," explains Soh. "Based on our interactions with U.S. companies operating in China, this is already a concern long before the recent escalation in trade tensions."

John Yang, Chief Financial Officer of restaurant chain owner Tsui Wah Holdings, and an Institute member, notes that another factor to consider is rising costs. "The increases in operating costs, mainly labour costs during the past decade, is the biggest challenge to doing business in Mainland China." Rules and regulations in the Mainland, he adds, are not as business-friendly as in Hong Kong. For example, there are heavy penalties involved in winding up small companies, particularly at an early stage.

"When overseas companies invest in Mainland China they often think something is workable, when it is not."

Lessons to learn

Once foreign companies have established operations in the Mainland, it is important they remain nimble enough to respond to change. "Change happens very fast in the Mainland, and the market is very competitive. Local companies can set up manufacturing very quickly and produce a similar product in a short space of time. It is difficult to maintain your product edge," says Au at EKPAC.

He gives the example of a European industrial machinery supplier that set up a factory in the Mainland five years ago. The European company put a lot of emphasis on quality, but a local company was able to produce similar products at half the price. "The end-user preferred the cheaper product because if it broke, the local manufacturer would supply a new one and fix the old one," he says. "In the end, the Chinese manufacturer bought out the European company."

Companies must also be prepared to localize their products to appeal to Mainland consumers' preferences. American food company Kraft Heinz recently created a new biscuit for the Mainland market, after disappointing Oreo sales – with local people finding them too sweet. With the help of a local team, it produced Jif Jaf biscuits, which look like Oreos with flavours such as matcha green tea, chilli, and cheese. Not only are the new flavours not as sweet as traditional Oreos, but they are also designed to appeal to younger consumers who are more experimental and adventurous in their tastes.

With regions so diverse, McKinsey & Company have argued that China should rank as more than just one country. According to a report titled, *Meet the 2020 Chinese Consumer*, "consumer needs could become so varied across regions that local insight and strategic decision-making power will be vital. Regional offices should therefore be given full responsibility for their own profit and loss accounts, strategic planning, consumer research, innovation, tailoring of the portfolio, development of the route-to-market model, and marketing."

Au believes companies should pay a lot of attention to changing consumer tastes particularly in very developed areas, such as the south and around Shanghai. "Different regions have different lifestyles, and the products that companies offer in China have to be totally different as the market matures," he says. "The local companies are much better than those overseas at adapting to these changes."

Chan at Grant Thornton agrees. "Because of the cultural differences, when overseas companies invest in Mainland China they often think something is workable, when it is not." She adds that building up trust is a very important part of doing business in the Mainland, but many foreign companies fail to understand this.

Yang of Tsui Wah also cautions companies to not expand too quickly. "Fast expansion can be a disaster for companies without the correct planning and budgeting. Many companies want to expand their market in the Mainland without thinking about their cash inflow, but capital markets will not support these companies," he says.

Hong Kong's advantage

While China is opening up to foreign investment, Hong Kong companies continue to enjoy significant advantages. Under the Closer Economic Partnership Agreement (CEPA) between Hong Kong and the Mainland, first signed in 2003, Hong Kong companies get greater access to the Mainland market, while Hong Kong is also used as a springboard for Mainland firms looking to expand overseas. Foreign investors can tap into these benefits by establishing businesses in Hong Kong. "The CEPA allows Hong Kong-based companies access to licenses that are normally off-limits to foreign investors from other countries, such as cloud computing services," Marro explains.

Au also thinks companies in Hong Kong are well-placed to benefit from other policies, such as the Belt and Road and Greater Bay Area initiatives, which he believes will boost demand for the expertise provided by professional services firms, both within China itself and in Belt and Road countries.

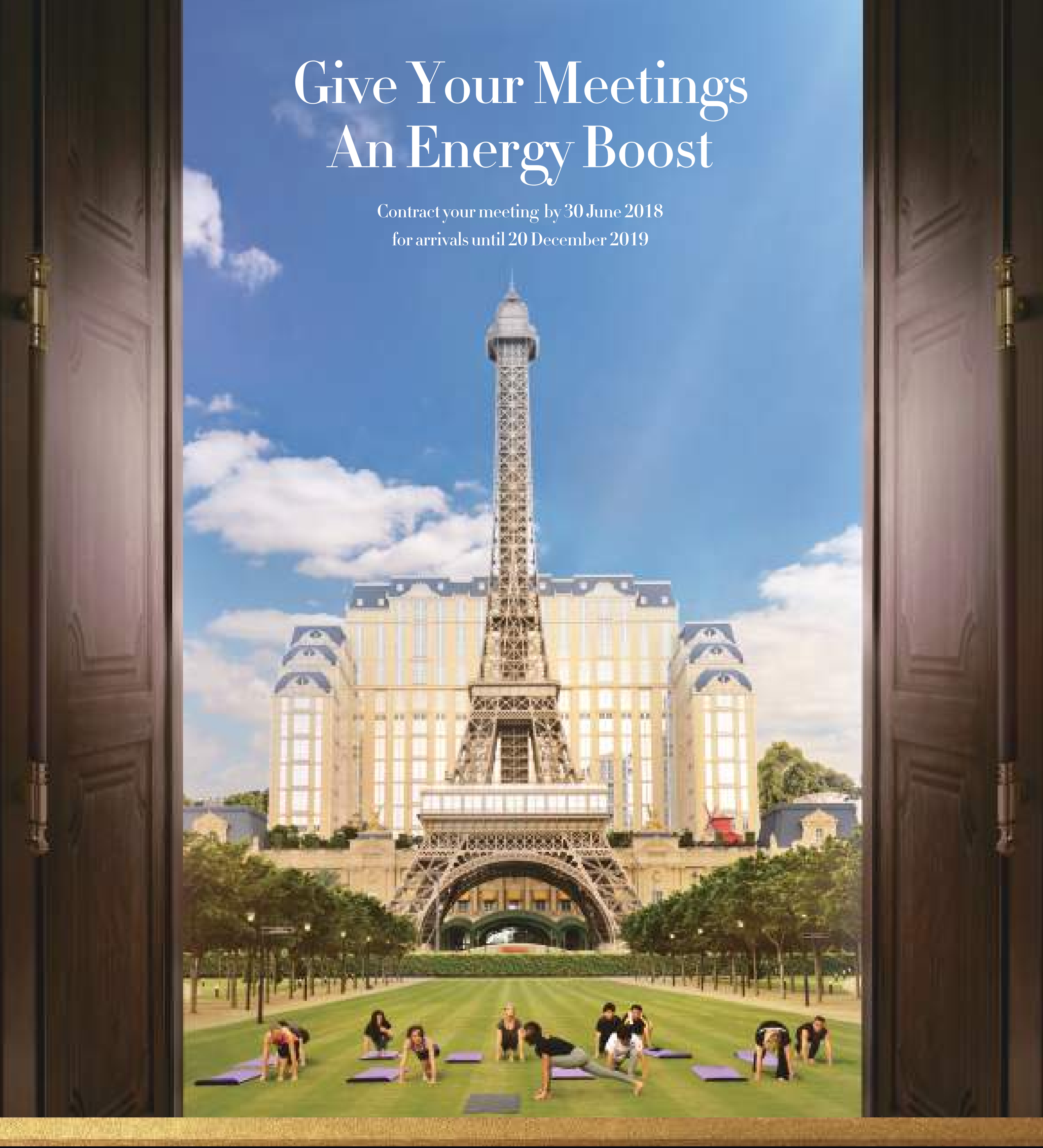
Yang points out that Hong Kong's exposure to both eastern and western cultures gives the city's companies an edge over foreign companies expanding into China, while further advantages are gained through common language and lifestyle.

Hong Kong companies also have the ability to quickly respond to changing tastes in the Mainland, notes Chan."They can communicate smoothly with those in the Mainland, so they are more adaptive," she says. "Companies in Hong Kong have substantial experience in doing business in China and serving people from the Mainland and that accumulation of experience is an advantage."

Yang advises companies looking to expand into the Mainland to play to their strengths and focus on having a stable management team in place. "I focus on our brand and gradually expand the business," he says, adding that having a strong network is critically important.

Au urges companies to pay attention to localizing their product. He adds that the Mainland is developing very quickly, exemplified by its rapid adoption of cashless payment systems. "Companies have to be agile and embrace this change," he says.

For Chan, success is often down to building the right partnerships and taking advice. "Any overseas company that really wants to invest in the Mainland should talk to professionals in Hong Kong," she says. "We can share our experience and support. That is definitely the way forward."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Philip Tsai

Mainland enterprises face a number of challenges on their digital journey, says the Chairman of Deloitte China

Embracing the age of digitalization

The "digital age" is upon us, where smart, connected technology has become an integral part of businesses, governments and communities. This continuing wave of technological transformation creates abundant opportunities, but also considerable challenges that must be overcome throughout the process. As we come to accept that digitalization will permeate every facet of business and life, corporate and public leaders of today should make it a priority to reflect on how they can best ride this wave to realize the maximum potential for all of us. And yet, as leaders, are we ready to?

According to a recent *Deloitte Global Survey* measuring corporate and government readiness for "Industry 4.0," the answer is one of ambivalence, mixed with equal doses of hope and hesitation. In Mainland China, enterprises appear to be positive about digitalization on the whole, with the country's digital economy reaching US$3.8 trillion – approximately 30 percent of its gross domestic product and just behind the United States. As of 2016, China surpassed Europe to become the world's second-largest venture capital market, with a total market value of RMB15.5 billion (US$2.3 billion).

Adapting to technology

The Mainland's rapid embrace of technological change is not surprising, given the myriad of opportunities that digitalization is expected to bring to different sectors. For businesses, adopting technological tools to track consumer behaviour will enable them to uncover new sources of revenue and, at the same time, optimize the flow in production management to achieve cost reduction. This need to acquire cutting-edge technology is demonstrated by active global acquisitions of foreign high-tech companies by Chinese enteprises, including the United Kingdom-based travel website Skyscanner by Ctrip, and the German robotics giant KUKA by Midea Global, respectively, in 2016.

For consumers, the advent of mobile technology and e-commerce have spawned the rise of cashless transactions, online shopping and the "shared economy," all of which have not only become an inseparable fixture in our daily lives, but are also continually affecting our purchase decisions. As a case in point, the convenience of bikes from ofo, the Beijing-based bike-rental company, has in many ways solved "the last mile" issue for commuters, and the gradual spread of bike-sharing could even help mitigate urban pollution.

Digitalization of goverment

For the government, digitalization can drive the development of public infrastructure, especially in the areas of smart cities and Internet of Things. By making use of digital technology such as artificial intelligence (AI), city planners can improve urban road traffic and public security systems. In the 13th five-year plan, Mainland China's government has earmarked RMB500 billion (US$75.3 billion) for the implementation of smart city plans in 100 cities.

In Shenzhen, one of the well-developed technological hubs in the country, a City Operations Management Centre was set up two years ago as a smart city lab to collect, analyse and utilize data related to urban systems and administration. In addition, the Shenzhen municipal government has also actively promoted the use of mobile apps and e-platforms to streamline the provision of medical services, as well as incorporated the widespread use of biometric authentication in public security measures.

Challenges ahead

Despite the many benefits of embracing digitalization, there remains a host of challenges specific to technological innovation in the Mainland economy.

First, while Mainland China is relatively strong in areas such as mobile payment, it still lacks many core technologies in sectors such as semiconductor chips. For example, the majority of the US$25.3 billion that Chinese mobile companies paid to Qualcomm in 2016 was patent fees. While some may argue that China is merely a successful importer and popularizer of technologies from abroad, the country has evolved over the years into an innovation and technology powerhouse. The question that remains now is how can the country build an ecosystem conducive to sustainable innovation?

Second, there is currently a dearth of digital talent in Mainland China. As of 2017, there is an estimated shortage of approximately 10 million technical talents and five million AI-related talents in the China market. As a result, enterprises should make a greater effort to invest in the digital literacy of their employees through training, as this is crucial to boosting the global competitiveness of Chinese companies in the long run.

Third, the overall culture is still rather intolerant of failure. Given the uncertainty surrounding bankruptcy protection laws in the Mainland, entrepreneurs tend to be less incentivized to have another go if their businesses go bust. To prevent the dampening of the innovative spirit, more efforts should be made to protect entrepreneurial interests by refining intellectual property laws and by paying greater attention to research and development in the science, technology, engineering and mathematics (STEM) sectors.

In light of the vast opportunities and considerable roadblocks ahead, corporations, communities and the government should work collaboratively on supporting innovation, entrepreneurship and technological development. While the path to becoming a digitally mature economy will be long and fraught with challenges, there is no doubt that we should be excited about the new avenues and horizons that the digital age will unfold for our future.

BRAND NEW HONG KONG

"East meets West" and "shopper's paradise." There's more to Hong Kong than this and Anthony Lau's task is to prove it. The Executive Director of the Hong Kong Tourism Board talks to Liana Cafolla about responding to emerging travel trends amid fierce competition

Photography by Calvin Sit

As a young man, Anthony Lau, Executive Director of the Hong Kong Tourism Board (HKTB), fully intended to become an accountant. "I tried really hard. I wanted to be a CPA," he says. His mother had encouraged him, but despite his best efforts, it was not meant to be.

In his first year at the University of Toronto, he failed his accounting exams. "I found it quite difficult. I was a science student. I didn't understand what the matching principle is," he recalls with a laugh.

In his third year, his professor gently advised him to try another subject. Lau was devastated, but decided to switch to marketing and found he loved it. He returned to Hong Kong after graduating with a bachelor's degree in commerce and looked for a job as a salesman, resisting his mother's attempt to help him find a job as an accountant. "I had to tell her that I didn't do accounting. I hadn't told her. She said, 'you spent all my money and you want to become a salesman?'"

That inauspicious start could have scared off a less determined man and on top of that, his first job was daunting. He started his sales career in a professional equipment company by cold-calling, starting at the top of a building and making his way down floor by floor, office by office. His first sale was to the Hong Kong Tourist Association, the predecessor of the HKTB, a piece of equipment that is still in use at the HKTB office where Lau now fills the top job, a position he has held for the last 11 years.

As Executive Director, Lau has global responsibility for the HKTB's operations and is in charge of promoting Hong Kong as an attractive destination to visitors from around the world as well as enhancing their experience once they arrive. His long experience in marketing in the private sector has helped him bring an entrepreneurial and business direction to the HKTB, which is a government-subvented body that replaced the Hong Kong Tourist Association in 2001. Unlike its predecessor, the HKTB has no affiliations and supports the tourism industry in its entirety. Under Lau's leadership, it focuses on promoting Hong Kong's brand as a city of non-stop intensity, fascinating contrasts, compact variety, and a distinctly trendy place.

From products to experiences

In May, just under 5 million visitors arrived in Hong Kong, an 8 percent year-on-year increase, according to statistics collated by the HKTB, with 77 percent of these arrivals coming from Mainland China. The HKTB, however, spends 70 percent of its budget on targeting non-Mainland visitors.

Lau's challenge has been to present Hong Kong as a multifaceted destination that offers much more than the city's traditional menu of dining, shopping and site visits. "In the past eight or nine years, we've been busy developing different experiences for consumers," he says.

"The consumer insights tell us that consumers going to a destination is not about just going to attractions anymore," he adds. "They want authentic experiences that goes deep into the skin of a culture and a city. The Neighbourhood Program is designed to do just that."

Perhaps the most prominent of these neighbourhood initiatives is Old Town Central, a series of practical roadmaps and self-guided walks in and around the Central district that brings visitors into closer contact with local communities and helps them find out about lesser known attractions and places of historical interest. These include the Chinese YMCA building on Bridges Street, which was built in 1918, and an easily overlooked traditional teashop specializing in *leung cha*, or cooling tea, located on Hollywood Road.

Another innovation has been to harness the insights and enthusiasm of locals through the HKTB's Hong Kong Pals volunteer programme, launched in 2009. The approximately 70 elderly volunteers work in the HKTB's visitors

"[Consumers] want authentic experiences that goes deep into the skin of a culture and a city."

"Are we providing the top service that consumers perceive Hong Kong offered in the past?"

Anthony Lau is responsibile for managing the global operations of the Hong Kong Tourism Board and leading the marketing of Hong Kong as one of the world's premier destinations for travellers.

centres. They provide an authentic experience by responding to visitors' enquiries with their own personal views and insights rather than repeating the HKTB blurb. Visitor feedback has been very positive, says Lau.

He has also embraced new technology and social media to spread his messages. Old Town Central has a QR code that allows visitors to download maps of its route, and the HKTB is active on social media websites including Facebook, Twitter, YouTube, Weibo and Instagram. Lau has also overseen the upgrading of the HKTB website, into a highly user-friendly portal that gives visitors dozens of off-the-beaten-track suggestions along with the practical details they need to find them. "I'm so proud that we've been able to expand it," he says.

Plenty of challenges remain to keep him on his toes. For example, the HKTB is limited in how far it can grow tourist rooms as it grapples with the realities of land shortage as well as the tight labour market and its impact on Hong Kong's once legendary service standards. "We all agree the service in Hong Kong has deteriorated," he says, alluding to conversations he has had with retailers and restaurant associations. "Are we providing the top service that consumers perceive Hong Kong offered in the past?" More training and awareness of the importance of service would help, he says. "There's no one major factor. A lot of major cities suffer from that. Hopefully much can be done, but I know it's very difficult."

The availability of new hotel rooms has not kept pace with rising visitor numbers, says Lau. "Hotel development is still a great business to be in, but again, getting a piece of land is difficult."

The shortage of rooms keeps prices higher, and encourages cost-sensitive visitors to consider alternative locations in the region, such as Taiwan, Singapore, Japan and South Korea.

Still the go-to

Lau is constantly on the lookout for alternative paths to create new product offerings to achieve his goals. People are travelling far more frequently than in the past, often taking three or four trips a year. Also, many visitors now prefer to travel individually rather than as part of an organized group. In response, Lau has shifted the HKTB's focus to increasing the attractiveness and range of offerings to encourage visitors to make repeat visits and to extend the length and breadth of their stay by highlighting offerings in less visited places, such as Lantau and Sham Shui Po. "Sham Shui Po is the most traditional part of Hong Kong. Very local," he says. "These are the places which we seldom introduced to tourists." He likens the district's colourful history to New York's meatpacker district, "unique districts that tourists seldom knew before."

On the events front, faced with a lack of large venues of the size of the Hong Kong Convention and Exhibition Centre and AsiaWorld-Expo for hosting more big events and conventions, Lau is focusing on building awareness among hoteliers and travel trade professionals of the opportunities to attract meetings, incentives, conferences and exhibitions groups. "Why can't we work with the trade and encourage them to use their network to bring in more, smaller groups – 100 or 200 people – leveraging on all the great hotel ballrooms that we have for those events?" he says. With that in mind, the HKTB launched "Funding Support for Small- and Medium-sized Meeting, Incentive and Convention (MIC) Groups" scheme in 2016, which aims to assist Hong Kong inbound tour operators to attract more MIC businesses to the city.

Hong Kong is a big tourism hub, he says, with the same attractive buzz as other global cities like London, New York and Paris. "If you're in the region,

somehow you feel like you have to be there for a couple of days."

Hong Kong is also a key entry and departure point for the Mainland. He says the launch of the new Hong Kong-Zhuhai-Macau-bridge and rail links to Mainland China will make Hong Kong an even more important and attractive hub in the region, with the new bridge cutting travel time between Zhuhai and Hong Kong from about four hours to about one and a half. "That will give us great opportunities to be the hub for both short visits and longhaul markets." In the medium term, visitors will have "ample opportunities to stay here for a few days, and then move on to the western part of the Pearl River Delta, which has a lot of very nice historical sites and cultural that is worth exploring, and I think we can capitalize on that," he says. "Tourism is about connectivity as well. Once you get connected, tourism will flourish."

Marketer and manager

Prior to moving to the HKTB and following his stint in sales, he worked at Philip Morris, working his way up from marketing trainee to a range of senior management positions, including director of sales and marketing and general manager. His early salesman days and his time at Philip Morris, where he marketed tobacco, one of the world's least desirable products, taught him resilience, how to talk to and engage with people

Lau previously worked at cigarette and tobacco manufacturing company Philip Morris, working his way up from marketing trainee to a member of the management team.

who have different perspectives, including government officials, and to think outside the box.

Marketing is not just about advertising, he says, it's also about being able to put yourself in the shoes of customers in different countries and understand their perspective, and to act fast in the marketplace armed with price positioning and a powerful marketing campaign. "Like Apple – who knew consumers wanted a walking music library on hand? You need to really sit on the consumer side and pretend you are a 60-year-old lady, if that product is targeting that. You get into the consumer's mind. I think that's the value that a good marketer can bring to an organization."

Those traits and insights proved particularly useful in his current career when he has had to align a large team around new strategies and implement unwelcome changes. "Philip Morris provided me with the opportunity to grow, and learn not only the trade, but also a lot of skills and techniques," he says. "I really learned the trade of marketing – what it is all about.

"From a marketer, I grew to become a manager – the manager of a business," he says. "That's helped me to learn the human resources perspective, to learn the financial perspective, and also leading a team. All this gives me a good foundation to take up this job."

He says he doesn't believe in job hopping. "I tell my son, once you think you've found the right company, stick with it." For Lau, it took 23 years before the offer of promoting the attractions of Hong Kong eventually persuaded him to leave Philip Morris and change job, and he finally made the move to the HKTB in 2007.

Initially, he found the transition from the private sector difficult,

“The last thing I want is to see someone who’s working hard getting the same salary increase as someone who’s sitting there doing nothing.”

but after a couple of months in his new role, he began to get a feel for the opportunities in the tourism industry. “Once I saw what this board is doing for Hong Kong, and the potential of tourism in Hong Kong, I got excited,” he says. “I think the tourism industry is very exciting. It changes all the time. The government is behind us in promoting the trade, I have a good gang of colleagues who are working really hard every day to make sure things happen. I am very lucky to have a wonderful board that gives me the support to do things that I think are right for the industry.”

Lau has used his private sector experience to implement a rewards system based on a performance measurement system for managers, with measurements of key performance indicators and defined goals and competencies. “On top of that, all the managers have their own goals – just a couple of them – that they need to achieve workwise,” he says. It was, he admits, “pretty painful” to roll out, but he sees it as being as fair as possible and essential to building a high-performing team where people get rewarded for their efforts. “We spend about a day every year to compare every single staff across the board.”

That builds motivation, he adds. “The last thing I want is to see someone who’s working hard getting the same salary increase as someone who’s sitting there doing nothing,” he explains.

Lau’s team numbers about 450 people of whom 300 are in Hong Kong and about 150 are located in overseas offices. Lau’s aim is to align the team behind a shared set of beliefs and an agreed common strategy. Teamwork is essential, he says, “but before you get a good team going, you need to align them – align what we all believe in – and on the strategies.”

Meetings can help. “I believe alignment is about people seeing each other. Email is important, but it’s important to have face to face talk.” He insists that every meeting results in an action point, that things keep going, rather than going around in circles.

“We also talk a lot about teamwork. Teamwork is not just about working together. Teamwork is about how do you help others to become successful. In our annual evaluations, that is a very, very key element,” he says.

He expects people to speak their mind, and his own management style is direct and unequivocal. “I speak my mind, whether you like it or not. I don’t want people to second-guess me. That shouldn’t happen,” he says. “If I’m really angry, for sure they know I’m angry! And if I love a concept, they know.”

For the January-to-May period, the number of tourists rose 10 percent to 25.9 million, with 20.1 million travelling from the Mainland, according to the Hong Kong Tourism Board.


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by Adam Johnston

The Managing Director of Robert Half Hong Kong on the dos and don'ts of writing an interview-landing CV

How to write a winning CV

Curricula vitae (CV) are important personal documents that will always be a part of your career no matter where you go. Done well, they are your ticket to a job interview, and will edge you one step closer to securing the job you are looking for. Every candidate can write a winning CV, if the right steps are taken.

A CV is a written document of everything that relates to your work history, which can include your experience, skills, achievements, education and qualifications. It needs to be up to date, meticulously correct, and you won't be able to secure a first interview without it.

For an accountant, it is important to sell your professionalism, precision, technical skills and strong industry relationships. Here is how to write a great CV, and give a good first impression.

Contact details

When using a template, it is vital to update the contact details to your own, and for them to be current and professional. Email addresses and mobile phone numbers are important, so it is crucial to double check these are correct and appropriate before submitting your CV.

Career objective

A career objective should be a taste of what the rest of your CV has to offer. It should be bannered at the top, and set the tone for all the information and experience that is to follow. It should also broadly summarize the information in your CV, briefly mention your passions and ambitions, and run no more than two lines.

Style

The profession is competitive, so whenever you submit a job application, you want to know that yours stands out. That means ensuring your CV is impressive, succinct and unique, while simultaneously aware of accounting sector practice and the high-level of professionalism expected by colleagues and clients.

Length

No matter what industry you are in or what template you choose to use, it's highly recommended to keep yours between two to three pages, and include only the most recent or relevant roles. Three or four roles should provide sufficient opportunity for you to show a prospective employer that you have the technical skills, soft skills, industry experience and initiative required to succeed in the role.

Titles

Use job or role titles that are understood at an industry level, and avoid role-specific terminology or jargon. Most importantly, make them professional. Your past and current titles give employers a sense of the professional responsibilities and duties you were tasked with in the various roles you have had, so make them easy to read and use labels that are both recognizable and credible.

Keywords

It is important that when you are ready to tailor your CV template, you include keywords that appropriately summarize and celebrate your skills and experience. This can be a balancing act of selecting positive, engaging words, while avoiding overused or generic descriptors. Like job titles, they will be expected and important in showing what you can or can't do.

Accountant CV dos

- Do keep it brief. Two or three pages is ideal.
- Acknowledge your academic and professional credentials early. These tend to be more relevant to the accounting and financial sector than other industries.
- Do include company names clearly. In finance, who you have worked for matters.
- Do call out memberships with industry-recognized bodies or organizations you've worked with.
- Do explain what was required of you in each role, to highlight the skills required and learned.
- Do detail your successes. If you reduced costs or increased efficiency, detail how you did it, and by how much.
- Do a thorough spelling and grammar check before submitting.

Accountant CV don'ts

- Don't speak in general terms. Be precise, but succinct.
- Don't think a generic CV will work. You need to tailor your CV for each role, understanding that the organizational structure, culture and duties differ with each position.
- Don't use company-specific language or terminology. Stick to what is known and understood at an industry level.
- Don't bend the truth, even a little bit. Be honest about your work experience and career ambitions.
- Don't use outdated or unprofessional contact details.

"The profession is competitive, so whenever you submit a job application, you want to know that yours stands out."

The best and brightest

Meet four partners who are illustrative of the sometimes rapid ascent that young CPAs can make. Jeremy Chan finds out how they take charge of their careers and their teams at under 35

Photography by Calvin Sit

"In this industry, there is no quick way," says 35-year-old Wilfred Lee, Partner at Deloitte, when asked about his journey to partnership. "You can't be employed as a manager after graduating – you need experience before you can be a trusted adviser and assist in decision making."

Making partner at a firm is regarded by many CPAs as the pinnacle of achievement. However, some Institute members under 35 like Lee understand what it really means to take on the role and the responsibilities that come with it. While they may not have decades of experience, they are committed to training the partners of tomorrow, and to continuously learning to remain relevant in an era of constant change.

Lee believes young partners and young professionals overall can bring fresh perspectives and ideas to the table. "Having young people in the team makes the team very energetic. It is easier to speak to people and there is more momentum. All of us are eager to get things done and celebrate success."

The challenge for him is proving those advantages to his clients, as his age can sometimes be a shock to them. "They just don't expect a partner to be so young," he says. "Some [clients] place very high expectations on you, so that's a bit of a burden. But when they see how enthusiastic you are in helping them, they overcome that first impression. But you can't feed the appetite of everyone in the market."

He agrees that, ultimately, it is challenges that make a professional. "The work life is quite tough at an audit firm – a year's work here is similar to two years' work at other jobs, but all of this is experience and exposure that you gain through each engagement," he says.

Firms tend to look for partners who can mentor and train. Lee has seen many leave the firm due to stress, and believes they could have benefited from having someone to speak to about how they can do better. "You have got to have a very good mentor in the firm – someone who is able to share experiences with you and motivate you," he explains.

He believes his experience as a mentee was vital to his career development. He met his own mentor while

> **"Some [clients] place very high expectations on you, so that's a bit of a burden. But when they see how enthusiastic you are in helping them, they overcome that first impression."**

Wilfred Lee (left), Partner at Deloitte with Bayern Chui, Partner at KPMG on secondment in Deloitte's Beijing office more than a decade ago. "He made partner within nine or 10 years, which is very fast," he says.

His mentor advised him on how to maintain productivity during the busy peak seasons. "He said you will face a bottleneck every two years in this industry, and that changing market demands make it tough for accountants to keep up. He said that you have got to catch up, and even if you do, there will be new challenges you have to overcome," he says. "I overcame these challenges by changing my mindset to one that embraces change." Regularly seeking guidance from his mentor was also a huge help. "He helped me move forward, and to be bold."

Next level leadership

Bayern Chui has had his fair share of tough love at the office. "We were handed challenges to develop and fulfil our potential," he says. "We strive for continual improvement." This, he adds, was all part of a learning process, and eventually helped him become Audit Partner at KPMG in 2016, when he was 32.

Chui, now 34, says he wouldn't have made partner without the challenges he faced leading up to the role. "I wouldn't say it was my goal to become a partner in a certain number of years. I was more focused on doing my very best on every task given." He looks back on one particularly challenging engagement that helped develop his ability to supervise. "I was handed an engagement with multiple, highly complicated issues," says Chui, whose clients come from a range of industries, such as transport, consumer markets and telecom. He says the engagement involved tax and advisory teams across multiple offices from China to Suriname, a small country on the northeastern coast of South America. "With effective and upfront communication, I am glad that we worked along very well as one KPMG team, despite the geographical and functional differences." Due to the client's high expectations and tight deadlines, Chui made sure everyone was on the same page and appropriately allocated work among the different KPMG teams. "In the end, we were able to deliver a very high quality audit to our client."

"The environment and opportunities [at KPMG] have taught me that you don't have to be afraid of failing."

Those who communicate ideas and issues to colleagues and superiors are able to rise to the top, Chui notes, as it helps them build up the ability to have productive conversations with clients. "Be brave enough to speak up when you encounter problems, as they are part of life," he explains. "Before I joined KPMG, I was quite shy and never spoke up often enough because I thought it wasn't necessary – thinking that someone else would. But since then, the environment and opportunities have taught me that you don't have to be afraid of failing," he says. "It's always better to address your concerns early, instead of leaving them until the last minute – the seniors will understand, since they likely experienced the same thing when they were younger."

Having these highly developed social skills come in handy in another way. "When staff members are faced with difficulties, such as stress, scheduling conflicts or family matters. We listen to them. That's an important part of being a partner – inspiring confidence within colleagues," he says with a smile.

A new perspective

Doris Luk, Partner at S.K. Luk and Co., supervises the audit and assurance division of the firm, leading the audit team on every engagement. Her father established the firm in 1970 and inspired her to take on a similar career path. "My dad would tell me stories about the roles and functions of an auditor in society, and how their work impacts companies and the wider community," says the 31-year-old. "He always said accountants are a bit like doctors – the clients are our patients."

Assuming the role of partner wasn't so easy. "It was a difficult transition, because your identity among your peers and colleagues changes," she says. "I recall pondering if I would be good at management." She had shifted her mindset and viewed the pressure as an important challenge to take on.

Clients count on her for her extensive expertise to truly solve their problems and add value. "You are expected to be able to tackle various areas, from compliance to tax and reporting to auditing," she says. "Clients want advice and

Doris Luk (left), Partner at S.K. Luk & Co. with Ambrose Chan, Partner at United CPA & Co.

leadership from you. They rely on your advice. Don't let anyone think less of you because you are young."

She recalls how much of a shock it was at first when people found out about her age. "When people received my business card at networking events or business meetings, they still thought I was an undergraduate student," she laughs. "But I just got on with it, because at the end of the day, they look at my experience and ask for my opinions."

As partner, the ability to communicate effectively with clients is vital, she notes, which means being able to explain complex information in laymen's terms. "You cannot expect all your clients to have a good understanding of audit terminology," she says. "Building a close relationship with your client, and remaining independent at the same time, is an art."

Good partners are also aware of how technology today is changing the role of accountants, and make an effort to keep their skills fresh. Older colleagues rely on Luk to teach them to use new accounting software. "In order to move forward, it is important to clearly explain the need for changes and how they are important to overall business goals," she says. "We are using a legal cloud software solution for our business to provide compliance services according to the Hong Kong Companies Ordinance. The software has helped us to draft legal documents faster. We are also planning on implementing a new system into our firm to go paperless. CPAs nowadays are working harder than ever, so we hope the new system will help us support a better work-life balance," she says.

"Building a close relationship with your client, and remaining independent at the same time, is an art."

"Older employees often perceive that you are trying to shake things up – and because they have their own way of doing things, they don't want too many changes," she adds. "I try to make it easier for them to do work. I want them to grow with our firm."

She looks forward to see what lies ahead for herself and the firm. "Being a partner in my early 30s is definitely a journey of continuous learning and also a self-development process, but when you see the pressure as a challenge and as an opportunity to establish yourself, you will then earn the trust and respect from colleagues."

Quick learner

Ambrose Chan, Partner at United CPA & Co., a Hong Kong-based accounting firm, increasingly sees young accounting professionals being handed big roles, especially amid a growing number of listed companies and initial public offerings in Hong Kong from the Mainland. "In the past, usually those with more than 10 years' experience are offered the role of financial controller or chief financial officer – but with more companies listing in Hong Kong, an accountant with only five years' experience can apply to become a financial controller," he says. "These listed companies require a financial controller or CFO, and the perfect candidate is a CPA."

Chan was appointed partner when he was 30. Before that, he worked at PwC for four years as a senior associate in the financial services practice, and then at ICBC Asia Bank for a year as a risk management manager. Those past experiences have helped him become a well-rounded partner. It also helps to

"In big firms, hiring and staff policies are handled by the human resources team, but as a partner at a small firm, I need to take care of this."

"think from the perspective of your immediate supervisor," he says.

These days, he manages the firm's operations and conducts staff training. "I need to take care of different 'cycles' of the firm," he explains. "If my staff need help, I need to take care of them and help them solve problems. In big firms, hiring and staff policies are handled by the human resources team, but as a partner at a small firm, I need to take care of this," he mentions. "We also need to oversee technical issues, such as the updating accounting software, while some days are for dealing with financial statements. It's really different."

The profession continues to face a long working hours issue. Indeed, members working at CPA firms with listed clients have the longest working hours, according to the Institute's 2017 Membership Survey. Because of that experience, Chan believes that it's not so surprising that he managed to move up the ladder quickly. "At my previous job, the working hours were 9 a.m. to 12 a.m., six days a week. But because of these difficult hours, a CPA can develop his or her skills in a short period of time."

After becoming qualified, he was able to strike a better work-life balance at PwC. Those who haven't qualified yet and working long hours should focus on the long term. "After qualifying, you can have a good life," he laughs.

28%

of the Institute's total membership are under 35 years old, according to the Institute's *Career Survey 2018* report

CHANGING THE GAME

Shirley Xie has gone from audit partner to PwC China and Hong Kong's first female Consulting Leader. She tells Kate Whitehead how her skills as a CPA allow her to help businesses navigate disruption

Photography by Calvin Sit

Shirley Xie relocated from Hong Kong to Shanghai to work in China's newly emerging private equity business in 2005. Buoyed by first-comer advantages, many of those early clients soon became the most influential people in the sector.

"One of my clients was the first investor in JD.com and I watched that whole thing happen and I helped it played a part in their e-commerce growth story. You feel like you are part of China's economic transformation, and you helped in making that happen. It's a wonderful experience," says Shirley Xie, PwC China and Hong Kong Consulting Leader, and a Hong Kong Institute of CPAs member.

The Mainland is a very complex environment, she says, and you have to be immersed in it to fully understand how it works and make valuable connections. Her experience there took place over a decade ago, but the Mainland is still rich in valuable lessons and opportunities for a career boost. "I think China will continue to invest in technological innovation to fuel economic growth for the next 30 years. I recommend that people spend a certain amount of their career in China," says Xie. "To this day, the contacts and relationships I had developed during the earlier stages of China's opening-up policy, remains key to my business and successes."

Shirley Xie is PwC's first female Consulting Leader in Asia Pacific. She leads business transformation projects for clients in Mainland China and Hong Kong.

Xie wearing her 3D-printed ring

Speed of change

PwC Consulting practice offers technology-enabled solutions to help clients find new ways of solving business problems around disruption. An integral part of it is the PwC Experience Centre, which this year launched Emerging Technology Lab. The lab introduces clients to the application of emerging technologies, and aims to encourage businesses to experiment with innovative ideas, develop prototypes and proof of concepts in order to bring products to market faster than their competitors. Artificial intelligence (AI), augmented reality, blockchain, robotics and 3D printing, are among the essential emerging technologies, according to the firm.

Circling between her index and middle finger is a large, white plastic ring in the shape of a flower. "Five years ago, I wouldn't have heard of 3D printing, and now it's part of everyday life. It's not just impacting business – it's impacting personal lives," she says, showing off her 3D-printed floral accessory.

Xie leads business transformation projects for clients in Mainland China and Hong Kong, providing consulting services to help companies build on their competitive strengths. While technology is setting the pace of change, Xie says it is important to be mindful that it is based on a solid economic foundation. "It's not just about being technologically advanced, but asking yourself questions – how emerging technologies can be applied to upskill the workforce and foster creativity. I believe empowering people to learn, grow and adapt to change is more critical than hiring by skill set. For accountants, it is important to measure the return of investments to determine the business value of emerging technologies."

In the Mainland, she sees money invested in buying market share but she would rather see more of that

"It's not just about being technologically advanced, but asking yourself questions – how emerging technologies can be applied to upskill the workforce and foster creativity."

money being spent on the research and development (R&D) of new technology and software. China's tech scene is dominated by business-to-consumer (B2C) platforms such as Tmall, JD and Suning, but compared with the United States, its business-to-business (B2B) market in the technology space is limited.

"[China] can't just focus on B2C, which is great for earning profit margins and more short-term. We need to think more longer-term developments in the B2B arena and probably more R&D needs to go into that. That's where our business comes in. We try and help shape some of these strategies and focus on a longer-term path to provide something more sustainable," she says. "We can't just rely on consumption, but more on strengthening the backbone of China's business and economy infrastructure."

Xie is aware that the accelerating rate of technological change sparks concerns that robots and AI might replace the traditional workforce. Her response is simple: embrace disruption because technology is not going away. "Intelligent automation will make life so much more efficient, and that will spur economic growth, new service offerings needed by the market, new skills and a new labour force," she says. "Robotics and workflow automation may reduce the labour force but will also create new jobs."

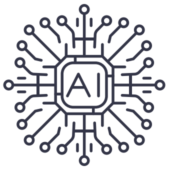
"As the world moves towards more tailor-made solutions, we need better analytics and better data. Humans have a lot to do with analytical skills that I don't believe can easily be replaced by robots," she adds.

Xie believes that some of the most important and successful people in the future will be "super-connectors," people who are able to connect and communicate different elements, such as technology, business strategies, human resources and finance. "It's about an ability to have a comprehension of what that technology does and how it ties into the business strategy. You need analytical and communication skills," she says.

She points out that when she started out in her career, she didn't realize how valuable theses skills would be. Her strength in mathematics and natural feel for numbers had drawn her to study accounting. "But when I got into accounting, it was less about numbers but about analytical skills – it was more about deciphering issues and resolving problems. That is more than the stereotype," she says.

Clear communication

Xie is PwC's first female Consulting Leader in the Greater China region. She believes her role requires patience, attention to detail, strong analytical skills, as well as the ability to build good rapport with clients and understand their needs. "You can't just look at a set of data, analyse, and expect a resolution. No one really volunteers their problems. It takes a lot of communication and digging before you find out what the problem really is," she says. "Empathy, attentiveness and the ability to observe behaviour



This year, PwC Experience Centre launched Emerging Technology Lab, which introduces clients to the application of emerging technologies that are expected to have the biggest impact on businesses over the next five years: artificial intelligence; augmented reality; blockchain; drones; Internet of Things; robotics; virtual reality; 3D printing; and robotic process automation all help."

She stresses the importance of having a diverse range of skills in her team. The firm, she notes, strives to hire a "portfolio of personalities" to match the portfolio of clients who all have different needs. "Hiring people with different backgrounds is a step towards diverse skills and solutions. In the business I run, there are people who have engineering, accounting, science and arts majors – it's a pretty diversified pool," says Xie.

Within her 25-year career with PwC, Xie has experienced a wide range of roles and industries. After graduating with a degree in Business and Commerce from the University of Toronto in 1993, she joined the firm and gained her CPA qualification. She accepted an offer to move with PwC to Hong Kong in 1996, thinking that it would be a two-year stint in Asia. That was 22 years ago, and she hasn't looked back.

Starting off at the audit department, she made audit partner in at the age of 34. At that point, despite reaching partner level, she felt that her career was just getting started. She did a three-year stint in Shanghai in the private equity business, returned to Hong Kong in 2008 and focused on financial services until 2016, when she took on her current role.

"I enjoyed my auditing experience and remember so much from it," says Xie. "When you are auditing, you are asking a lot of questions on a day-to-day basis. You have to ask questions skillfully to get the answer that you want. This really enhanced my communication skills, and this is absolutely critical – the ability to articulate – in my current job."

Lessons for life

Xie credits her success in large part to her qualification. "Being an accountant and serving clients from retail to financial services, gave me a really wide set of skills that has put me where I am today."

She advises young people starting out to go with their strengths of "core competencies," skills they are

"I have had some experiences whereby my trust in others was questioned. But, this has not encouraged me to be less authentic in the way I deal with people."

fundamentally good at and passionate about. It's the same advice that she gives to organizations – focusing on your strengths and building outwards from that.

She offers a fresh perspective on viewing one's career. "Your career is an ecosystem – it's your boss, your peers and the teammates you have. To have a successful career, you have to ensure the whole ecosystem works well," says Xie. That means, she adds, not just managing upwards, but developing a team and having a broad relationship with your peers. "My personal ecosystem has shaped and sharpened my vision as a leader, and my ability to see challenges or situations from different people's perspectives. A personal ecosystem of people who have diverse backgrounds and experiences, which brings diverse thinking and options to weigh in."

Early in her career, she learned some hard lessons about dealing with people and conflict, and trust issues. "I have had some experiences whereby my trust in others was questioned. But, this has not encouraged me to be less authentic in the way I deal with people and approach problems," she explains. "Through this experience, I have learned to compromise, give space and time to others and demonstrate the right behaviour in order to lead by example. When I make decisions, I do not compromise issues of integrity to accommodate others. One of the most effective way I had found to build trust and earn respect from others is through sincere, authentic actions."

She is grateful for the two mentors who guided her at the beginning of her career in audit. "The first was a CEO of a financial institution. The mentor encouraged me to make decisions that stood by my value system. The advice given still holds true to my role today – people depend on me to make independent decisions, decisions I am held accountable for. This means no shortcuts and no catering to others' interests that would impede my values nor ability to judge a situation objectively," she explains. "The second mentor is among PwC's leadership. The person taught me the virtues of patience, to avoid jumping to conclusions and think of the long-term implications of my actions. During moments where I may normally have reacted, I have learned to remain calm and focused."

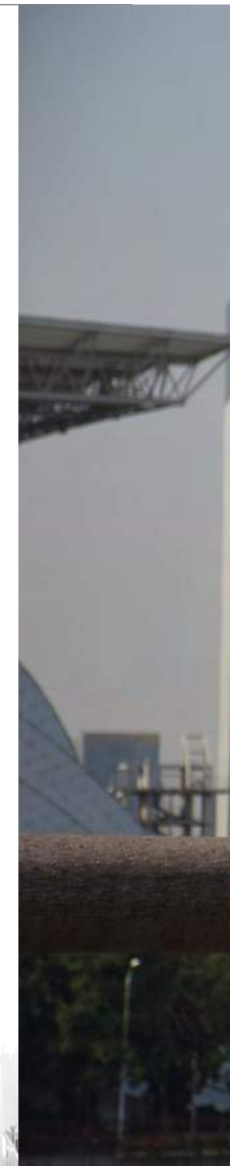
One of the most valuable lessons she learned was the ability to process negativity. "I have learned to stay focused and ignore negative noises around me. I'm not always right – and that's okay. People worry about making a mistake, but we should not be discouraged as we learn from our mistakes. We should not shame mistakes and risk losing focus on what's right to get the right outcome," she says.

At the firm, Xie has managed to find personal and professional fulfilment – the satisfaction of feeling that she is making an impact not just regionally, but globally. "I feel we are changing China's companies. I target mid-to-large companies, the ones that are doing well and have great potential but not yet reached the top of the game. It is immensely gratifying to help them get closer to the top," says Xie. "I feel we are changing the face of China through digital transformation of enterprises and the economy. Today, we live in a data-rich world where technology-driven decisions will profoundly change how we work, live and interact with each other."

During a three-year secondment in the Mainland, Xie worked on the cross-border transactions for a wide range of multinational corporations based there.

LIFE ACROSS THE BORDER

Institute members have long embraced the vast professional and commercial opportunities open to them in Mainland China. For some, the possibilities have even made them move to the country for good. Jeremy Chan talks to members based in China about what they had to learn, adapt to, and eventually, come to love



"I don't feel a lot of pressure in China," says Loretta Lau, Head of Tax, Greater China and ASEAN at Publicis Groupe, the world's third largest communications group.

Another thing keeping her in China are the vast opportunities there. "The job market is really good, especially for CPAs," says Lau. "My boss told me that she prefers a tax manager with sound accounting knowledge, as CPAs are also skilled in tax."

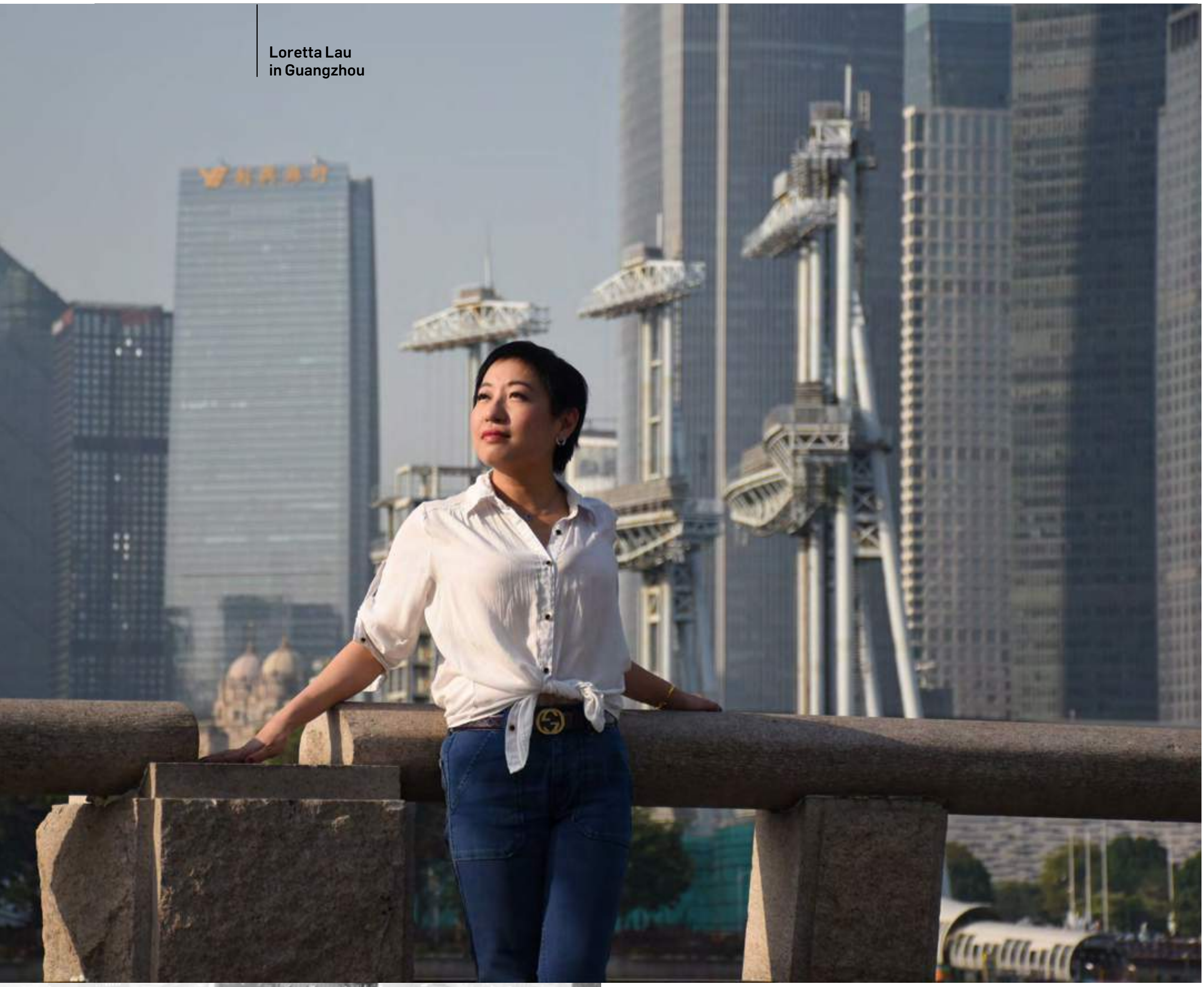
She moved to Guangzhou from Hong Kong in 2006 as a tax manager at KPMG's Guangzhou office. In 2008, she made the switch to the corporate world but stayed in China and joined Publicis.

In addition to providing tax advisory, she helps her company minimize tax risks, provide tax advice on mergers and acquisitions and assists with internal restructuring. "It's very challenging learning about different taxation systems in Greater China and South East Asia. For example, the tax system in China is one of the most complicated in Asia, in my opinion," she says.

She tells how hard work and effective communication skills are also key to being successful in the Mainland. "Fluent Mandarin helps a lot. I only learnt during middle school, and with my fluency in Mandarin, I am able to better adapt to the culture in China," she says. "I can also speak a bit of Japanese, since I worked in Japan for a short time at a Big Four firm."

Being multilingual has proven to be an indispensable skill for Lau – who also puts her skills to use during meetings. "Good English helps too, especially if you work for a foreign company," she says. Lau adds she still had to assimilate to the work culture. "You need to adapt to the culture here, as people here work very hard, and the work atmosphere is very competitive."

Good food also plays a big part in Lau's China experience. "There are eight major types of cuisines in China. My favourite is Cantonese food."



Loretta Lau in Guangzhou

"My boss told me that she prefers a tax manager with sound accounting knowledge, as CPAs are also skilled in tax."

Steven Yuen
in Chongqing

"All I have to do is go online, find a groomer, and he or she can come to my house to groom and clean my dog. It's that convenient."

Cashless Chongqing

"Right now, I don't even need to bring my wallet when I go out. I only bring my phone because it can handle all my payments," says Steven Yuen, Chief Executive Officer of Qinyuan Bakery, a bakery chain under Swire Foods. Indeed, Mainland China is recognized as an advanced market for mobile payments thanks to mobile payment apps such as WeChat Pay and Alipay, and Chongqing-based Yuen witnesses first hand, why.

Yuen left Hong Kong in 2004 and moved to Shanghai to work at food company Heinz, and then paint and coating company AkzoNobel in 2009, both as chief financial officer. After AkzoNobel brought him back to Hong Kong for three years, Yuen had a revelation. "I realized that the market in China was much more interesting," he says. "China is much more dynamic, and there is more momentum – and because of this, if you capture opportunities, a lot of things can happen." After working with AkzoNobel for four years, he decided to return to food. "I was also more engaged in that industry, and I wanted to return to China." He joined Campbell's, the world's largest soup company, following its joint venture with Swire to expand the reach of its business in China. He then worked for Swire as general manager for a year before starting at his current role in January 2015, in the southwestern province of Chongqing.

At Qinyuan Bakery, Yuen is in awe of the ways Mainland consumers, and their insatiable appetite to integrate digital technology into their lives, has impacted his business. "Just three years ago in Chongqing, over 90 percent of our customers were paying in cash, but right now, half of them are using WeChat Pay or Alipay to pay at my outlets," he says. For example, Yuen and his team works with the apps on many integrated campaigns. "We first create advertising on WeChat which our consumers will share," he explains. "We then create the digital e-coupon which consumers can send to their friends, who are then able to access to the online shopping mall on the app. They can also send e-coupons to their friends or family. With the integrated online and offline marketing campaign, we were able to increase sales of mooncakes by almost 40 percent in 2017."

Yuen, also a dog lover, highlights another example of how tech-driven his adopted home is. "All I have to do is go online, find a groomer, and he or she can come to my house to groom and clean my dog. It's that convenient," he says.

With his heart and mind set on growing the company further within the next five to 10 years, Yuen plans on staying in Chongqing. Partly keeping him is the abundance of housing space compared to Hong Kong. "The size of a basic local apartment here is around 800 or 1,000 square feet," he says. Ample room for growth, that he believes, came with taking the plunge and immersing in an opportunistic environment. "Before I entered China, I didn't think I would ever leave Hong Kong. You just have to adapt."

Learning to adapt

It all boils down to *guanxi*," says Alfred Lai, Director of Finance at China Xintiandi. A subsidiary of Shui On Land, China Xintiandi is an investor, operator and manager of premium commercial properties in the Mainland. Lai supports the group in Shanghai by helping his team meet their strategic objectives and by delivering value to shareholders. *Guanxi* refers to relationships that help facilitate business dealings in Mainland China, and is perhaps overused in discussions about doing business in China. But to Lai, the concept should never be overlooked. "Before getting any real support from the other side of the table, you need to drink a lot of *baijiu*," he says, referring to a popular rice liquor in China as he explains what *guanxi* means to him.

"You need to make sure the whole network of people is kept in the loop and aware of what is going on," he says. "They want to be sure we are not jeopardizing their objectives." By bonding over food and drinks, the tension would ease and feelings of trust would build up, he adds. "This creates a relationship between us before we would start talking about serious business matters – that's the sort of effort you need to put in."

Like Lai, many CPAs are experiencing how mobility is a distinguished characteristic of the profession, after deciding to make a life for themselves in the Mainland. They find that their CPA qualification, diverse expertise and business acumen make them sought-after not only locally but globally, including across the border.

Drawn by the career opportunities, Lai has spent more than 20 years working in and around the Mainland. His first brush with China was in 1996, when he was working in Shandong province, located on the eastern coast, and he has not looked back since. "There were many businesses looking for people who were willing to work in China, and many opportunities for qualified accountants," remembers Lai, who was director of finance at spirits and wine distribution company International Distiller at the time. "Because China's economy is growing, there is still a lot of demand."

Adjusting to the local customs in China took some time for Lai, but was all part of a learning process, he says. "I really had to adjust how I dealt with people in the work environment, as they have different agendas," he says. "We couldn't just look at our own objectives – we had to consider what they were after as well."

Putting his family first, Lai plans to stay in Shanghai in the long term. "My family and kids are here," he says. "And they are happy staying here."

Ada Yan in Beijing

Traditional vs. modern

Born in Beijing, Ada Yan has seen the Mainland evolve with the times. “Over the last 10 years, you can really see a lot of up-and-coming talent,” she says. “The country is attracting a lot of people with an international view – people who know how to work with multinational companies, international brands, and those who are competent in many languages.”

As Regional Finance Manager of Royal Dutch Shell, Yan is in charge of supply chain in Asia Pacific and the Middle East for its lubricants business. The company sells lubricants for internal combustion engines and power generation plants. Her career spans over 25 years, having worked for many companies that specialize in the automobile industry. She worked for petroleum company ExxonMobil Hong Kong Limited in 2000 for two years, and at the same time, attained her CPA qualification. She then transferred to ExxonMobil Chemical (Shanghai) Service Co., a subsidiary under ExxonMobil Chemical Company, Inc., for five years and then spent five more years working in Beijing for global auto-parts company Delphi.

With over a decade of working experience in Beijing, she points out the distinct qualities of both Beijing and Shanghai, adding that opportunities have grown over the past 20 years. “Beijing is a bit more traditional but there’s more culture, and thousands of years of history which you can really explore,” she says. “I like bringing my family to go skiing in the winter.”

Yan, however, misses working in Shanghai. “I prefer Shanghai – it’s very metropolitan, modern and open to the Western world. When I lived there, I would bring my family to places nearby and explore the cultural heritage,” she says. “In terms of the resources and the quality of talent, working in Shanghai is great.”

Shanghai’s location, at the mouth of the Yangtze River Delta, means residents are not too far from natural landscapes, she adds. “You can visit Zhejiang, Anhui and Jiangsu. These places are closely related to the development of modern Chinese history, and it’s where I could reflect on my own cultural journey,” she says.

“Beijing is a bit more traditional but there’s more culture, and thousands of years of history which you can really explore.”

She points out that members don’t need to live in Hong Kong to feel the support of the Institute. “The Institute organizes many well-run events that provide a lot of value to Hong Kong members working in Beijing and I participated in many of them.”

Mainland China is where most work is undertaken for more than 3 percent of the Institute’s total membership, the majority of which specified working in Shanghai, according to Institute statistics as of 29 June 2018.

The application of HKAS 12 *Income Taxes* in light of the recent Hong Kong profits tax regime

A look at the implications of the new two-tiered profits tax regime

Hong Kong Chief Executive Carrie Lam's maiden Policy Address in October 2017 set out her plans to introduce a two-tiered profits tax regime. The regime halves the tax rates for the first HK$2 million of assessable profits of corporations and unincorporated businesses (mainly sole proprietorships and partnerships) and will apply from the year of assessment 2018/19.

HKAS 12 on tax liabilities and assets

The relevant paragraphs in Hong Kong Accounting Standard (HKAS) 12 *Income Taxes* setting out the requirements for measuring the current and deferred tax assets and liabilities are reproduced below:

Paragraph 46 of HKAS 12 states that "Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period."

Paragraph 47 states that "Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period."

Paragraph 48 states that "Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws)."

Question 1: In Hong Kong, at which point in time are tax rates "substantively enacted" for the purposes of HKAS 12?

Answer:
According to the Basic Law of Hong Kong Special Administrative Region (HKSAR), after a bill has been gazetted, it has to pass through three readings in the Legislative Council (LegCo) before it is enacted. A bill is subject to debate and vote in the Second and Third Readings. If a bill is rejected during either of those Readings, no further proceedings shall be taken on it. A bill passed by LegCo after the Third Reading shall take effect only after it is signed and promulgated by the Chief Executive.

If the Chief Executive refuses to sign a bill which has passed the Third Reading, then the following articles of the Basic Law are applicable:

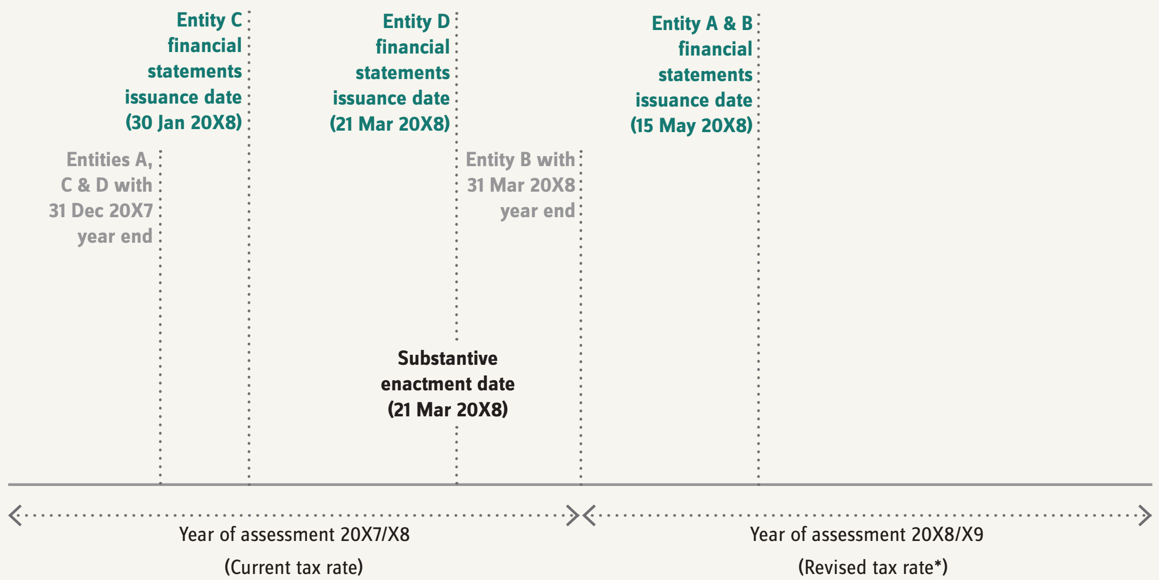
Article 49 of the Basic Law states that "If the Chief Executive of the Hong Kong Special Administrative Region considers that a bill passed by the Legislative Council is not compatible with the overall interests of the Region, he or she may return it to the Legislative Council within three months for reconsideration. If the Legislative Council passes the original bill again by not less than a two-thirds majority of all the members, the Chief Executive must sign and promulgate it within one month, or act in accordance with the provisions of Article 50 of this Law."

Article 50 states that "If the Chief Executive of the Hong Kong Special Administrative Region refuses to sign a bill passed the second time by the Legislative Council, or the Legislative Council refuses to pass a budget or any other important bill introduced by the government, and if consensus still cannot be reached after consultations, the Chief Executive may dissolve the Legislative Council."

Article 52 states that "The Chief Executive of the Hong Kong Special Administrative Region must resign under any of the following circumstances: (1) When he or she loses the ability to discharge his or her duties as a result of serious illness or other reasons; (2) When, after the Legislative Council is dissolved because he or she twice refuses to sign a bill passed by it, the new Legislative Council again passes by a two-thirds majority of all the members the original bill in dispute, but he or she still refuses to sign it; and (3) When, after the Legislative Council is dissolved because it refuses to pass a budget or any other important bill, the new Legislative Council still refuses to pass the original bill in dispute."

Following the Hong Kong legislative process, a bill or law in Hong Kong is enacted only when it has been signed and promulgated by the Chief Executive.

Illustrative timeline for question 2



*Assume the revised tax rate is applicable from the year of assessment 20X8/X9.

Summary of accounting impact on financial statements for question 2

Entity	Current tax measured at	Deferred tax measured at	Disclosure requirement under paragraph 21 of HKAS 10
A	Current tax rate	Current tax rate	Yes
B	Current tax rate	Revised tax rate	N/A
C	Current tax rate	Current tax rate	N/A
D	Current tax rate	Current tax rate	Yes

To our knowledge, there is no history of a Chief Executive returning bills passed by LegCo (i.e. after Third Reading) for reconsideration since the establishment of the HKSAR. For the purpose of accounting for income taxes, a bill is considered to be substantively enacted after passing the Third Reading (substantive enactment date). This is because the legislative procedures after the Third Reading appear to be a formality, and based on all the facts available to date, there is usually reasonable certainty that a bill will be passed in law after the Third Reading.

Should new information come to light, the point in time of "substantive enactment" will be reassessed.

Question 2: In general, what is the accounting impact on financial statements with accounting periods that end before, on or after the substantive enactment date of the revised tax rates?

Answer:
Current and deferred tax assets and liabilities should be measured at the tax rates that have been enacted or substantively enacted at the end of the reporting period. Current tax assets and liabilities are measured at the tax rate applicable in the year of tax assessment period, while deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the corresponding temporary differences are expected to reverse (paragraphs 46 and 47 of HKAS 12).

Financial statements with accounting periods that end before, but are authorized for issue after, the substantive enactment date should disclose the nature and an estimate of the financial effect of those changes if the impact is expected to be significant; or a statement that such

Tax rates for the assessable profits of corporations and unincorporated businesses

Assessable profits	Corporations	Unincorporated businesses
First HK$2 million	8.25%	7.5%
Over HK$2 million	16.5%	15%

estimate cannot be made (paragraph 21 of HKAS 10 *Events after the Reporting Period*).

Background to the 2018 two-tiered profits tax regime

On 21 March, a two-tiered profits tax regime, the Inland Revenue (Amendment) (No. 7) Bill 2017 (the bill), was passed after LegCo's Third Reading. It was then signed by the Chief Executive on 29 March.

The bill reduces the tax rates for the first HK$2 million of assessable profits of corporations and unincorporated businesses (mainly sole proprietorships and partnerships) and applies from the year of assessment 2018/19 (i.e. tax assessment years commencing on or after 1 April 2018; profits taxpayers are allowed to choose any accounting year end date which may not coincide with the year of assessment). The applicable tax rates are as presented in the table above.

The amendment only allows a group of "connected entities" to nominate one entity to apply the reduced tax rate for a given year of assessment.

In addition, the amendment contains a provision to avoid double benefits to exclude corporations which have elected to be subject to the reduced tax rate for profits derived from their businesses of professional reinsurance, captive insurance, corporate treasury centres and aircraft leasing. Furthermore, interest, gains or profits derived from qualifying debt instruments that are already subject to tax at half-rates under the existing provisions are excluded from the amendment.

Question 3: What is the accounting impact of the 2018 two-tiered profits tax regime on financial statements?

Answer:

Although the bill was signed by the Chief Executive on 29 March, with reference to Question 1, the two-tiered profits tax regime was substantively enacted on 21 March after passing the Third Reading.

For financial statements with accounting periods that ended before, but authorized for issue, after 21 March 2018

The relevant paragraphs in respective standards as below apply:

Paragraph 21 of HKAS 10 *Events after the Reporting Period* states that: "If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

Paragraph 10 of Section 32 Events after the End of the Reporting Period of *Hong Kong Financial Reporting Standard (HKFRS) for Private Entities* states that "An entity shall disclose the following for each category of non-adjusting event after the end of the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect or a statement that such an estimate cannot be made."

Paragraph 8 of Section 17 Events After the End of the Reporting Period of the *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (the SME standard) states that "Where non-adjusting events after the end of the reporting period are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an entity should disclose the following information for each significant category of non-adjusting event after the end of the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

With these requirements in mind, the entity should therefore disclose the nature of the tax changes and provide an estimate of the financial effect of those changes if the impact is expected to be significant, or a statement that such estimate cannot be made.

For financial statements with accounting periods that ended on or after 21 March 2018

The change has no impact on the determination of current tax before 1 April 2018 (i.e. for those accounting periods for which the tax assessment year of 2018/19 is not yet applicable, e.g. for a year ended 31 March 2018). Eligible entities should use the reduced tax rate to measure the current tax liabilities arising from their first HK$2 million assessable profit in the year of assessment 2018/19.

The measurement of deferred tax assets and liabilities will be affected by the change

Calculation of the example

		Year 20X1	Year 20X2	Year 20X3
Profits before tax		HK$2,000,000	HK$3,000,000	HK$4,000,000
Reversal of temporary differences		HK$1,000,000	HK$1,000,000	HK$1,000,000
Taxable profits		HK$3,000,000	HK$4,000,000	HK$5,000,000
Profits tax				
First HK$2,000,000 @ 8.25%		HK$165,000	HK$165,000	HK$165,000
Remainder @ 16.5%		HK$165,000	HK$330,000	HK$495,000
		HK$330,000	HK$495,000	HK$660,000
Average tax rate		11.0%	12.4%	13.2%
Deferred tax balance as at 31 March 20X0	HK$366,000	HK$110,000	HK$124,000	HK$132,000

for the accounting periods ended on or after 21 March 2018, for financial statements prepared in accordance with HKFRS or HKFRS for Private Entities. The change is not applicable for financial statements prepared in accordance with the SME standard – as no accounting for deferred tax is required under the SME standard.

In the first financial accounting year that the deferred tax is calculated using the new tax rates, any adjustment to the deferred tax calculated in the prior year under the rates then in force is accounted for in the current period and not as a prior year adjustment. Accordingly, the comparatives are not restated.

Question 4: How to calculate the average tax rate for deferred tax purposes in the financial statements under the two-tiered profits tax regime?

Answer:
The following relevant paragraphs in respective standards apply:

Paragraph 49 of HKAS 12 states that "When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse."

Paragraph 28 of Section 29 Income Tax under HKFRS for Private Entities states that "When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realized)."

After the introduction of the two-tiered profits regime, management will need to determine the rate by estimating the entity's future annual assessable profits and place special attention on when reversing of temporary differences for measuring the deferred tax assets/liabilities in the financial statements.

The following example illustrates the calculation of the average tax rate:

An entity is entitled to the reduced profits tax rate under the two-tiered profits tax regime for the first HK$2,000,000 of its taxable profits. It has taxable temporary differences in total of HK$3,000,000 as at 31 March 20X0 which are expected to reverse evenly throughout the coming three years.

The entity estimates its profits before tax for the coming three years 20X1, 20X2 and 20X3 are HK$2,000,000, HK$3,000,000 and HK$4,000,000 respectively. See calculation in the table above.

By applying the average tax rate, the deferred tax balance as at 31 March 20X0 is HK$366,000 compared to HK$495,000 (HK$3,000,000 x 16.5 percent) if there was no two-tiered profits tax regime.

The questions and answers have been developed by the Institute's Financial Reporting Standards Committee (FRSC) and are for general reference only. The Institute, FRSC and their staff do not accept any responsibility or liability in respect of the Q&As and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Q&As. Members of the Institute and other users of these Q&As should also read the original text of HKAS 12 Income Taxes, as found in the Members' Handbook (http://www.hkicpa.org.hk/ebook/main.php) for further reference and seek professional advice where necessary when applying the guidance contained in these Q&As.

This article is contributed by the Institute's Standard Setting Department.

Examining Hong Kong's new transfer pricing regime

Patrick Cheung examines eight key elements of the regime for consideration by tax departments and corporate management

Hong Kong's new transfer pricing regime was enacted on 13 July 2018 through Inland Revenue (Amendment) (No. 6) Ordinance 2018. While most will instinctively first focus on the new transfer pricing documentation requirement, management of Hong Kong companies should take a broader and more strategic approach to managing their transfer pricing risks. They can do so by considering their whole-group risk profiles, not only in Hong Kong but also in other jurisdictions where their affiliated companies are in the same supply chain as the Hong Kong companies. As a general rule, minimizing transfer pricing risks in one jurisdiction means a corresponding elevation of transfer pricing risks in the counterparty's jurisdiction. Balancing these risks and understanding the possible trade-offs are critical steps in managing the overall risks for the corporate group as a whole.

A change to transfer pricing may also require the management team of a company to recognize that, in addition to change in tax filing positions and the required documentation there may need to be meaningful changes in day-to-day operations, accounting treatment, funding structures, reallocation of human resources and/or reporting structures, and new legal agreements reflecting new structures. In some instances, regulatory bodies may need to approve these changes as well. A lot of people may therefore need to be involved in any change, which will take time to properly implement.

While transfer pricing legislation is new to Hong Kong, the reality is that most of its trading partner jurisdictions have already adopted their own transfer pricing laws and regulations and many have updated their regimes since the roll-out of the Organization for Economic Cooperation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) Action Plan Report in 2015.

This article discusses eight key elements of the regime for consideration by tax departments and company management.

Eight key elements of the regime

The arm's length principle

The new regime strengthens the legal implementation of the arm's length principle, previously introduced through the Inland Revenue Department's (IRD) Departmental Interpretation & Practice Note (DIPN) No. 46 in 2009, as the fundamental transfer pricing rule in Hong Kong. This empowers the IRD to adjust profits or losses where a transaction price between two related parties departs from the perceived market price, leading to a tax advantage for the taxpayer in Hong Kong. However domestic related party transactions are exempted from the new rule if the transaction is: domestic in nature; does not give rise to an actual tax difference; and is not utilized for tax avoidance purposes.

Since the arm's length principle came into force from the year of assessment 2018/19, irrespective of when a company's documentation deadline may fall, transfer pricing arrangements that are inconsistent with the arm's length principle will have to be corrected before that end of the fiscal period. It should also be noted that the arm's length principle applies to all taxpayers even if they do not meet the threshold for preparing transfer pricing documentation (discussed below).

Transfer pricing documentation requirements

Through the consultation process before the finalization of the Bill, the government accepted views from the tax community that the thresholds for preparing transfer pricing documents proposed in the Bill were too low and adjusted the business and related party transaction size test thresholds upward. Hong Kong entities are required to prepare Master Files and Local Files for accounting periods beginning on or after 1 April 2018 if both tests below are met:

Business size test	Related Party Transactions size test (excluding certain domestic transactions)
Meeting any two of the conditions:	Meeting any one of the conditions:
Total annual revenues exceeding **HK$400m**	Annual amount of buy-sell transactions of tangible goods exceeding **HK$220m**
Total value of assets exceeding **HK$300m**	Annual amount of transfer of financial assets / intangible assets exceeding **HK$110m**
Average number of employees exceeds **100**	Annual amount of other transactions exceeding **HK$44m**

Groups whose annual consolidated revenues exceed HK$ 6.8 billion will also be required to file Country-by-Country Reports (CbCR) for accounting periods beginning on or after 1 January 2018.

While Hong Kong subsidiaries of large foreign multinational companies (MNCs)

may rely on Master File created by their head office, the IRD requires Master Files to be produced in English or Chinese – which may not be the case – creating extra work for the group. Also, the relatively low Hong Kong threshold for Master File may mean medium-sized MNCs not meeting the Master File threshold in their home jurisdictions will need to produce a Master File for Hong Kong. As the content of the Master File sometimes contain strategic information of the group, it should be reviewed by all relevant stakeholders prior to its filing.

Penalties and non-compliance

The regime sets out penalties and creates offences. These include fines for non-compliance as well as criminal offences in cases of fraud. Generally, penalties for transfer pricing purposes are in the form of an administrative penalty amounting up to 100 percent of the tax undercharged criminal charges may be pressed for more serious non-compliance with CbCR obligations.

Treatment of intangibles

Section 15F allows for imposition of tax on Hong Kong taxpayers if they carried out value creation activities such as development, enhancement, maintenance, protection or exploitation (DEMPE) functions in Hong Kong that contributed to any intellectual property (IP) held by an overseas related party.

The recognition of the importance of DEMPE functions is a central thesis of the OECD BEPS Action Plan. In fact, most tax jurisdictions have adopted the principle and started refining how to enforce it. Some jurisdictions have gone even further and added additional requirements. For example, the Mainland's State Administration of Taxation has added an extra "P" for value created by local promotion for marketing intangibles. This has created an environment in which most, if not all, tax authorities in different jurisdictions will seek to put a value to DEMPE contribution by people in its own jurisdiction against those elsewhere in the supply chain of the group.

Therefore, differences in opinions between authorities will likely lead to double taxation. Also, with the potential extensive information sharing under the new global transfer pricing regimes old practices may no longer be feasible. For example, it is common for local entities to choose to negotiate settlements with the local tax authorities on a one-off basis without affecting its affiliates' position in other jurisdictions. Now, the group as a whole will need to have a clear, consistent view and articulation of where it thinks the value-added DEMPE functions are performed and how these functions attribute to the value of the intangible assets.

The current wording of Section 15F also creates a potential double taxation risk. Although, after concerns were raised by the tax community, the IRD reiterated that it will make sure that a person will not be subject to double tax in respect of the same income from any IP, Section 15F is silent on this matter. More details will be provided only in a forthcoming DIPN. To allow more lead time for taxpayers' preparation, the rule's effective date was deferred for 12 months and effective from 1 April 2019. Companies should therefore ensure compliance with the arm's length principle and properly document details of value attribution models in relation to their IPs in both its Master File and Local File.

If modifications of operational structures are required in Hong Kong or other jurisdictions, Companies should also make sure that any changes satisfy local tax, regulatory, labour laws, accounting, funding and other reporting requirements. As the changes may involve internal – and sometimes external – stakeholders, implementing changes prior to the various deadlines may pose additional challenges.

Interests on loans

Despite introduction of the new transfer pricing rules in the tax legislation, the territorial source principle has not changed. Companies should review if interest is indeed chargeable, and if so, the company should also ensure that the interest rates and the relevant terms of related party loans comply with the arm's length principle. For related party loans to foreign affiliates, taxpayers should be cautious about other requirements or limitations, such as thin capitalization rules in the other jurisdictions, to ensure compliance.

With respect to interest free loans between related entities in Hong Kong, emphasis will be on whether any tax advantage is created.

Attribution of profits to a permanent establishment

Specific provisions have been introduced which apply to any non-resident who has a permanent establishments (PE) that carries on a trade, profession or business in Hong Kong. The new transfer pricing regime effectively adopts the Authorized OECD Approach by treating the PE as a separate and distinct entity in determining attributable income or loss. The IRD has emphasized that this provision will not limit or alter the conditions for charging profits tax – meaning only those attributable profits that have a Hong Kong source will be subject to tax.

In view of the concerns of some

stakeholders, particularly financial institutions, the application of this principle was deferred for 12 months and will apply for years of assessment beginning on or after 1 April 2019. The IRD will also provide further guidance on the application of this principle in a future DIPN.

Advance pricing arrangements

In additional to new compliance burdens, the new regime also brought some good news for taxpayers, through a formal advance pricing arrangement (APA) regime. With an established APA regime, it is expected that Hong Kong will be able to assist its taxpayers to enter into bilateral APAs with more tax jurisdictions. In addition, the IRD will also accept applications for unilateral APAs – which up to now have not been available.

The transfer pricing regime also provides for the rollback of transfer pricing methodology for APA purposes to prior years depending on the circumstances of each case. This provides taxpayers with an efficient platform to deal with complex transfer pricing issues over a longer period of time than before.

Dispute resolution mechanism

As jurisdictions, including Hong Kong, begin to increase enforcement of transfer pricing through new laws and regulations, it is expected that this will result in more disputes and double tax issues. To ensure effective resolution of these disputes, the regime provides for a statutory dispute resolution mechanism whereby (i) a taxpayer can present a case for a Mutual Agreement Procedure (MAP) and/or arbitration under a relevant tax treaty, and (ii) the IRD must give effect to any agreement reached with the other tax authority concerned in the course of the MAP or arbitration.

However, before these apply the regime also requires taxpayers to demonstrate that they have taken reasonable steps to limit the tax they have paid to the other tax authority before the IRD will consider double tax relief.

Also significant for some taxpayers is the deadline for applying for corresponding adjustments. These have been extended to the later of:

- The end of two years from the time when the foreign tax adjustment was made; or
- The expiry of the time limit for making an assessment / additional assessment under the Ordinance (i.e. six years).

In addition, the taxpayer is required to give written notice to the IRD within three months of the adjustment.

While having a statutory dispute resolution mechanism is indeed good news for Hong Kong taxpayers, there are very specific steps the taxpayers have to follow to be entitled to the relief. It is therefore very important for Hong Kong entities to be well coordinated with its related counterparts, to monitor the issues and progresses of each other's transfer pricing audits and the appropriate competent authorities are notified and become involved at the appropriate moments.

The takeaway

Armed with its new enforcement tools and additional information that taxpayers will be required to provide, tax authorities, including the IRD in Hong Kong, will soon be asking more challenging questions that may lead to significant tax adjustments and potential double taxation.

It is therefore very important for Hong Kong corporate taxpayers to carefully revisit their transfer pricing policies, their positions with respect to their supply chains and related party uses of intangibles as well as the arm's length nature of the provision of intercompany services, particularly services that may not have been compensated at arm's length or at all in the past, and to ensure that these remain appropriate for their groups from Hong Kong and abroad, before deciding how to strategically comply with the new transfer pricing regime within the applicable deadlines.

Finally, companies should not simply focus on the documentation deadline. It is more important to be in compliance of the arm's length principle on an ongoing basis and the deadline for making any meaningful changes before you are locked in is practically the end of your current fiscal year. Any changes in transfer pricing policies will likely require involvement of internal and or external stakeholders beyond tax and accounting departments and therefore even more lead time should be budgeted to ensure the necessary organization inputs are factored in.

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Patrick Cheung is Transfer Pricing Services Partner at KPMG

TechWatch 189

The latest standards and technical developments

Members' handbook update

Members' handbook update no. 218
Update no. 218 relates to the issuance of a revised Conceptual Framework for Financial Reporting 2018.

Local updates

Q&As on HKAS 12 *Income Taxes*
The Institute issued Q&As on applying HKAS 12 *Income Taxes* in light of the recent two-tiered Hong Kong profits tax regime.

Invitation to comment
The Institute is seeking comments on the IASB Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* by 9 Nov.

International updates

IFRS updates
- June IASB Update
- June IFRIC Update
- IASB video which explains the IASB's proposed approach in DP/2018/1 to classify financial instruments either as debt or equity

Professional accountants in business

HKEX publishes review results of listed issuers' financial reports
On 1 June, Hong Kong Exchanges and Clearing (HKEX) published a report summarizing key findings from its review of 100 periodic financial reports released by listed issuers between February 2017 and April 2018.

The report highlights the importance of the following areas:
- Providing investors with meaningful management commentary;
- Judgments and estimates;
- Assessing the impairment of tangible and intangible assets (including goodwill);
- Accounting for acquisitions;
- Impact of applying key HKFRSs in issue but not yet effective; and
- New auditors' reporting.

HKEX reminds issuers that financial reports and all other corporate communication should be accurate, complete and not misleading, and the Audit Committee should focus on financial reporting integrity as part of its core oversight responsibilities.

Members, especially those responsible for preparing financial reports of listed issuers, are encouraged to read the report.

Role of the finance function in enterprise performance management
The International Federation of Accountants recently published a report on enterprise performance management (EPM). For finance professionals to be viewed as business partners, they must contribute effectively to EPM beyond traditional financial reporting and financial systems.

EPM represents a range of activities and practices that provide the reference points needed to deliver insights based on financial and non-financial, internal and external, and structured and unstructured data and information. It is based on an integrated management approach that links strategy to core processes and activities using relevant measures to report, manage performance and improve understanding of value creation.

This publication identifies why and how the finance function must evolve to support EPM, including:
- Why EPM is critical to the future of the profession;
- How accountants in business and the finance function can drive effective performance and financial management; and
- The four key enablers of EPM.

Corporate finance

HKEX consultation on backdoor listing and continuing listing criteria
On 29 June, HKEX released a consultation paper to seek views on proposals to tighten the reverse takeover rules and continuing listing criteria to address concerns over backdoor listings and "shell" activities. This forms part of HKEX's ongoing holistic review of its rules to tackle problematic corporate behaviour with a view to maintaining the quality and reputation of the Hong Kong market. A summary of the proposed Listing Rule amendments is set out in the press release. Comments are requested by 31 August.

HKEX has also issued guidance letter (HKEX-GL96-18) on listed issuer's suitability for continued listing, citing examples of circumstances where HKEX may raise concerns whether a listed issuer or its business continues to be suitable for listing.

Forum on Hong Kong market's future role
On 1 June, financial experts from Mainland China and Hong Kong took part in a lively discussion to review Hong Kong's contributions to China's opening up, and the role Hong Kong can play as the country enters a new phase of capital market reforms, at a forum titled "A New Journey for a New Era – The Future of Hong Kong's Capital Market." The forum was attended by over 400 guests, including senior representa-

tives from regulators, industry groups, corporations and investors. Read the HKEX press release for details.

Taxation

Announcements by the Inland Revenue Department (IRD)

Members may wish to be aware of the following matters:

- A Legislative Council question on claim for Disabled Dependant Allowance
- Levy payment to the Property Management Services Authority starting from 1 July
- Expanded scope of tax deductions for capital expenditure incurred for purchase of intellectual property rights
- Tax obligations of property owners, taxpayers and employers
- IRD Performance Pledges 2018-19
- Stamp Duty statistics (May 2018)
- Stamping Circular No. 06/2018 about filing of return of stock borrowing transactions
- A research brief on health insurance for individuals in Hong Kong

Institute's recent tax submissions

The Institute's Taxation Faculty has commented on Inland Revenue (Amendment) (No. 3) Bill 2018, relating to enhanced tax deductions for certain expenditures incurred on research and development activities.

Legislation and other initiatives

Anti-money laundering notices

Members should note the following notices and publications in relation to anti-money laundering and counter-terrorist financing (AML/CTF):

- Government notice 4161: An updated list of terrorists and terrorist associates has been specified under the United Nations Sanctions Ordinance (UNSO).
- Government notice 4162: An updated list of terrorists and terrorist associates has been specified under the UNSO.
- Legal notice 117: The United Nations Sanctions (Central African Republic) Regulation 2018 has been published in the Gazette.
- Legal notice 118: The United Nations Sanctions (Yemen) Regulation 2015 (Amendment) Regulation 2018 has been published in the Gazette.
- Legal notice 122: The United Nations Sanctions (Democratic People's Republic of Korea) (Amendment) Regulation 2018 has been published in the Gazette.
- Government notice (extraordinary) 30: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- United Nations (Anti-Terrorism Measures) (Amendment) Ordinance 2018 was enacted by the Legislative Council on 21 March and came into effect on 31 May.
- United Nations Sanctions (Amendment) Ordinance 2018, which enables regulations made under the ordinance to impose sanctions directly against persons, in addition to places, has come into effect.
- Insurance Authority issued Key Findings of AML/CFT Onsite Inspection Visits to Authorized Insurers Carrying on Long Term Business on 31 May, to review their AML/CFT policies, procedures and controls (collectively referred to as "AML/CFT systems") and their compliance with the AMLO and the guideline.
- High-risk and non-cooperative jurisdictions: In June, the Financial Action Task Force issued a public statement regarding two jurisdictions and a document titled "Improving Global AML/CFT Compliance: On-going Process" concerning eight other jurisdictions.
- Specially designated nationals and blocked persons list, published by the United States Treasury's Office of Foreign Assets Control. More details on the Resource Centre of the Treasury.

Anti-money laundering procedures manual for accountants

The Institute published an Anti-money laundering procedures manual for accountants to support its members in their compliance with and implementation of the new anti-money laundering and counter-terrorist financing regulatory regime. The manual is now available for purchase at the 27/F service counter of the Institute's office.

Please refer to the full version of TechWatch 189, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

Book review

In pursuit of **the fifth P**

Title: **Purpose, Incorporated: Turning Cause Into Your Competitive Advantage**
Authors: **John Wood and Amalia McGibbon** Publisher: **Self-published**

According to John Wood, a former Microsoft executive turned literacy philanthropist, and Amalia McGibbon, an author and publicist, there used to be only two types of companies: for-profit and non-profit.

In *Purpose, Incorporated: Turning Cause Into Your Competitive Advantage*, they both argue that the time has come to realize the two are not mutually exclusive. Profitable companies can also be driven by the goal of doing well by doing good. Wood and McGibbon harken to the so-called "4Ps" of marketing, devised by the American business school professor Edmund Jerome McCarthy in the 1960s: product, price, promotion and place. For modern consumers, especially millennials born from about 1980 to 2000, Wood and McGibbon argue that the 4Ps no longer define what sets a company apart. "Unless you have first mover advantage, the odds are good that a rival has already optimized those 4Ps long before you and your product arrived." Thus, the book argues for a fifth P, purpose, as a "largely unclaimed frontier." Millennial consumers, they write, citing a Goldman Sachs report, rank corporate social responsibility (CSR) higher than any other attribute, including lower price, easy availability, quality or prestige.

Businesses that leverage purpose win the war for talent, especially among millennial employees, who are forecast to account for 75 percent of the global workforce in 2025. In this year's *Deloitte Millennial Survey*, six in 10 said "a sense of purpose" is part of the reason they chose their current employer, 90 percent want to use their skills for good, and more than half of millennials would take a pay cut to find work that matches their values.

Wood and McGibbon detail the road to employment taken by Matt Dee, a Hong Kong-raised computer scientist, roboticist and mountain climber who turned down a hot job at Snapchat, the photo-sharing "unicorn" in Silicon Valley, because he couldn't discern the company's sense of purpose and the recruiter couldn't articulate one. He passed on Facebook, mobile-payment company Square and big data software company Palantir Technologies before joining Oscar, an ambitiously reform-minded healthcare start-up in the United States.

The authors posit that the most successful and innovative companies are not the ones that treat CSR as a nice-to-have or publicity stunt, or keep it "siloed" in a single department. Rather, they "bake" a strong sense of purpose into the fabric of the organization, and ensure that every employee, customer and stakeholder is aligned with that purpose.

The result, they conclude, is that companies then have a much stronger competitive advantage in key areas that are critical to their continued success and growth, including customer retention and employee recruitment, motivation and retention. More importantly, "purpose isn't just for limping millennials," Wood writes. "For starters, it's been proven that Gen Xers and baby boomers are starting to communicate and shop like millennials."

The authors pepper their crusade for the fifth P with interviews and anecdotes with a wide range of companies that have scented the advantages of a sense of purpose, altruistically or otherwise. Many are from the U.S., the authors' home country, including domain host Namecheap, school-lunch provider Revolution Foods and the Asia-inspired skincare company Tatcha. Non-U.S. examples include Canada's low-cost airline WestJet, Australia's enterprise software company Atlassian, the Japanese-owned Financial Times and telecommunications company Hong Kong Broadband Network (HKBN).

Wood cites his own experience as a Hong Kong resident and telecoms customer. While he had "zero problems with service" at established rival PCCW, HKBN's identity appealed more, when he saw it "publicly declaring that whether the company made Hong Kong a better place to live would be the litmus test by which it would judge itself and by which the public should also evaluate it."

Social media drives much of today's perception of the corporate world. Wood and McGibbon warn that customers, employees, former employees, government regulators and citizen watchdogs are often in charge of a conversation that was "formerly controlled by television-advertising buys."

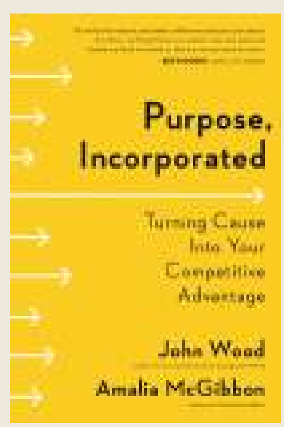
That means pitfalls for companies, who, the authors argue, should avoid trading coal or shark's fins or doing business with payday lenders. Worse, don't trivialize the importance of purpose, as PepsiCo found in 2017, when it decided to make an ad showing model Kendall Jenner "defuse" a riot with a can of soda.

"Doing purpose is much harder than most companies believe," Wood and McGibbon write. It probably would help if the company actually believes in it.

Author interview: John Wood

For someone who built his career in business, John Wood has little regard for Milton Friedman, the economist and leading advocate of free-market capitalism. "For too long, business leaders have followed Friedman's advice that there is no social purpose of business beyond delivering maximum profits to shareholders," he tells *A Plus*.

Wood was director of business development at Microsoft Greater China when a holiday in Nepal in 1998 brought him in contact with a local principal who had barely any books in his school's library. He quit his job to found Room to Read, a non-profit organization for improving literacy and gender equality in education in the developing world. The organization, by Wood's count, has helped about 14 million children in 15 countries.



He described his own journey from capitalism to charity in his 2006 memoir, *Leaving Microsoft to Change the World: An Entrepreneur's Odyssey to Educate the World's Children* (HarperBusiness). Wood's goal in writing *Purpose, Incorporated* was not to divert executives from their traditional roles, but to enhance their decision-making. "I wrote this book as a call to action to the world's business leaders to stop missing a major opportunity," he says.

The author believes that putting a philanthropic element into a company not only makes the world a better place, but also builds better, more motivated and more profitable companies. "Purpose is fundamentally a mature, long-term-based approached to business," he says.

"CSR activities," he adds, "create shareholder value by reducing expenses through, say, wind energy or plastic-less packaging, or reducing the risk to those cash flows through tax advantages or avoidance of future environmental penalties."

As well as pushing companies to develop their CSR roles, Wood has used lessons from his own career at Microsoft to make his Room to Read charity more efficient. "We use the Berkshire Hathaway model of keeping the headquarters tight and focused, while devolving as much authority and resources as possible out to the field," he says.

Room to Read has more than 1,600 employees in Cambodia, Sri Lanka, Nepal, Tanzania and elsewhere. But Wood's personal HQ is Hong Kong, where he spends about half the year.

"Hong Kong has the greatest combination of things that appeal to me," he says. "Wealth and businesses that support Room to Read, a great airport and airlines, high speed rail, awesome beaches and hundreds of kilometres of running trails." I love the efficiency of this city. I can't think of a better city in which to base myself as a globetrotting ambassador for the organization."

Eat

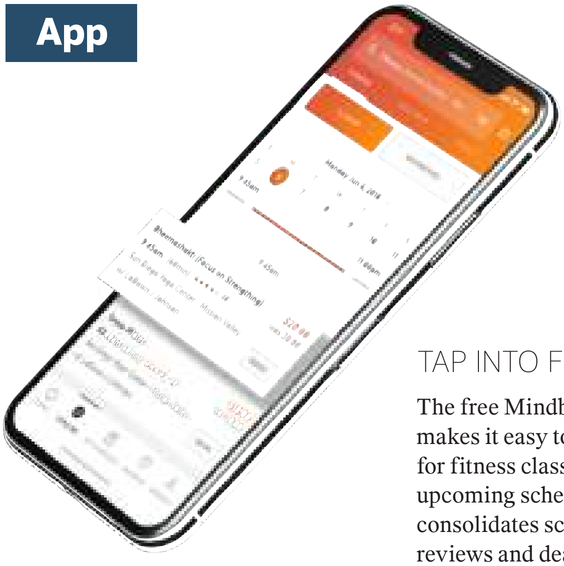
ICHU Peru

AUTHENTIC PERUVIAN CUISINE

This month, Virgilio Martinez, the chef behind the award-winning restaurant Central in Lima, Peru, launched ICHU Peru in Hong Kong. Serving contemporary Peruvian cuisine in a relaxed, bistro-style setting, the focus is on showcasing authentic flavours while honouring Peruvian culinary traditions. "We want guests to feel as though they have been to Peru and experienced local comfort food. ICHU will celebrate Peru's no-fuss dining culture with a menu that showcases traditional local ingredients and cooking techniques," says Martinez. ICHU comprises a separate bar for casual dining, an intimate chef's table for private gatherings and a spacious outdoor terrace with views overlooking Pottinger and Stanley Streets.

Address: 3/F H Queen's, 80 Queen's Road, Central
Opening hours: 12 noon - 12 a.m. (Mon - Sun)
Website: *www.ichu.com.hk*

App



TAP INTO FITNESS

The free Mindbody app makes it easy to register for fitness classes and view upcoming schedules. It consolidates schedules, reviews and deals for fitness studios and wellness and beauty services nearby.

Download Mindbody app from the App Store or Google Play

Arts

A WILD RIDE DOWN THE RABBIT HOLE

Hong Kong Ballet opens its 2018/19 season with the Asian premiere of its Artistic Director Septime Webre's *ALICE (in wonderland)*. The whimsical new production reimagines Lewis Carroll's *Alice's Adventures in Wonderland* as a fusion of dance, theatre, and puppetry, and will showcase traditional ballet merged with contemporary energy. The five performances at Hong Kong Cultural Centre's Grand Theatre will be accompanied by the City Chamber Orchestra of Hong Kong, while the four performances at Yuen Long Theatre's Auditorium will be staged to recorded music. The Washington Ballet Principal Dancer Brooklyn Mack will make his special guest appearance during the performances on 17, 18 and 19 August at 7:30 p.m.

Dates: 17-19 August
Venue: Grand Theatre, Hong Kong Cultural Centre
Times: (Fri) 7:30 p.m.; (Sat and Sun) 2:30 p.m. and 7:30 p.m.

Dates: 24-26 August
Venue: Auditorium, Yuen Long Theatre
Times: (Fri) 7:30 p.m.; (Sat) 2:30 p.m. and 7:30 p.m.; (Sun) 2:30 p.m.
Tickets: *www.urbtix.hk*

Exhibition

HONG KONG FOOD EXPO RETURNS

Entering its 29th year, the Food Expo will feature more than 1,500 exhibitors from over 20 countries and regions. The Trade Hall will be dedicated to trade buyers looking to explore business opportunities with exhibitors on the first two days, and will open to public visitors with ticket admission on the last day. The Gourmet Zone and Public Hall will feature more than 70 exhibitors under the themes of Western Delicacy, Asian Cuisine, Sweet Delight as well as Green Palate. There will be a wide range of worldwide delicacies such as plant-based pork, truffle soy sauce, Japanese Wagyu beef, Spanish ibérico ham, specialty coffee, wine, cheese and new types of ice-cream.

Dates: 16-20 August
Venue: Hong Kong Convention and Exhibition Centre
Opening hours: 10 a.m. - 10 p.m., 16-19 August; 10 a.m. - 6 p.m., 20 August
Website: *www.hktdc.com/hkfoodexpo*

Famous tales retold from an accounting point of view

Hong Kong's humorist offers a fresh take on some classic films

It wasn't the book's main title, but the smaller, lower headline that caught my attention: *"The story of the Medellín drug cartel told by its accountant."*

How odd. True crime stories are always written from the point of view of detectives. Seeing it from the viewpoint of the villain's accountant was new.

I didn't buy the book, *The Accountant's Story* by Roberto Escobar, but I imagine it includes lots of return-on-investment analyses of shooting deaths compared to murders by decapitation, etc.

It got me thinking. What other stories could be usefully retold from the point of view of accountants? And could specialist accounting knowledge, such as the magic of compound interest, be used in books and movies about time travel, for instance?

Famous stories retold from an accountant's point of view:

Oedipus Rex: A king kills his father and marries his own mother, causing a tangled inheritance tax loop.

The Lord of the Rings: Frodo Baggins destroys an ancient golden ring stolen from Gollum by his uncle, Bilbo, raising interesting issues of asset ownership and liability.

Pirates of the Caribbean: Drunken adventurer Captain Jack Sparrow wants to recover buried treasure, but lacks the corporate track record needed to raise seed funding from investors for the trip.

Star Wars: Evil villain Darth Vader creates a weapon that destroys whole planets, causing a massive demand for interstellar liquidation and insolvency specialists.

The Sound of Music: A rich widower marries his children's nanny and then abandons his mansion to sneak them into another country, raising intriguing issues of asset seizure and illegal immigration.

Pride and Prejudice: The difficulties faced by a family, in which all the children are female, highlighting the patriarchal nature of legacy inheritance laws.

Jurassic Park: Ancient DNA is used to create a theme park with real dinosaurs which then eat the tourists, raising massive liability issues and causing headaches for loss-adjusters and insurance specialists.

Gulliver's Travels: A hidden population of tiny people who call themselves Lilliputians is found, triggering a question. As they don't use roads, hospitals, or schools, should they pay tax?

One Hundred and One Dalmatians: A woman wants to kill 101 Dalmatian dogs to use their skins to make a coat. Clearly this huge over-order of raw material makes a rigorous audit process necessary.

Fatal Attraction: A married man has an affair with a woman who then tells him she is pregnant. His financial liability for baby-related expenses is clear, but viewers should also consider whether he should set aside money to pay a fine for adultery, still illegal in many places.

Titanic: On a sinking ship, a third-class passenger (normal ticket price: US$15) demonstrates more nobility than first-class passengers (ticket price: US$150). Some accountants may struggle to understand this storyline.

Avatar: Humans try to steal a valuable substance from a lush, green planet inhabited by a tribe of blue-skinned creatures. The plot highlights the need for the International Criminal Court's planned financial crimes unit to deal with resource pillage.

The Godfather: A film producer declines to give work to an Italian actor, until he finds the severed head of a horse in his bed. Accountants will immediately spot the issue here. Do unwanted "sweeteners" still count as facilitation payments?

Well, there are a few ideas – readers can probably think of more.

But if I had the budget to remake a Hollywood film with a bit of financial awareness thrown in, I would probably do this one:

The Terminator: A robot from the far future travels back in time to perform a political assassination, but takes an hour off to put a few bucks into a bank account offering compound interest. Woohoo!

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*


Success symbol
CPA
Success ingredient


PATEK PHILIPPE
GENEVE
Begin your own tradition.