



**Driving business success**

Issue 10 / Volume 14 / October 2018

**Plus:**

**Success**

IBM Hong Kong's Bonnie Chan

**Profile**

Xero's Asia Regional Director  
Kevin Fitzgerald

**Oxfam Trailwalker**

CPA teams reveal what  
it's really like to run a  
100-kilometre race



# For and against Hong Kong

CPAs have a crucial role to play  
in both helping companies avoid  
short selling and identifying  
short selling targets



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

ISSN 1815-3380



9 771815 338008

HK\$70.00



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

# Annual Dinner 2018

# ACCOUNTING PLUS



BOOK  
NOW



SPONSOR  
NOW



HKCEC



3 DEC



6:30PM

**“The Taskforce studied a number of election models of other professional bodies and concluded that no one particular model can be adopted for the Institute.”**



Dear members,

I am writing to update you on the actions of Council in relation to the extraordinary general meeting Resolution 2, implementing one member, one vote poll for the election of the president and vice-presidents.

I previously noted that a Taskforce was set up by Council to consider several options proposed by the management, with the objective of holding a poll of all members under the current Council election framework. Apart from examining the practicality of the poll, the Taskforce also considered amendments to the Professional Accountants Ordinance in parallel.

After deliberations over the past months, the Taskforce has decided that the Institute needs to undertake a thorough process of consultation with members and the government to agree the necessary changes to the Professional Accountants Ordinance before implementing a one member, one vote poll. Therefore a poll will not be

carried out this year. This decision was also reported to Council.

The Taskforce did not come to this decision lightly. The Taskforce studied a number of election models of other professional bodies and concluded that no one particular model can be adopted for the Institute, and the Institute has to develop its own model for the election of the president and vice-presidents, as well as Council members.

The Taskforce then studied the changes to the election model under the Professional Accountants Ordinance required to implement a poll for electing the president and vice-presidents. They concluded that a thorough review of some or all of the “moving parts” of its election model is necessary; these parts could include the size and composition of Council, ratio of practising and non-practising members, term of office, and eligibility and nomination process for election to president, vice-presidents and Council

members. The complications of implementing a one member, one vote model therefore extend far beyond simply changing the election process of the president and vice-presidents.

Amendments to the ordinance to change the election model will require the endorsement of our membership and the government. This means that, before any changes can be made thorough consultations on the proposals will be needed. Due to the complexity involved, the Taskforce concluded that more time is needed to review the situation and put forward proposed amendments to the Professional Accountants Ordinance and undertake the consultations. As such, this process will continue in the coming year.

Council will therefore follow its existing election model and elect the president and vice-presidents immediately following the conclusion of the 46th annual general meeting to be held on 13 December.

**Eric Tong**  
President

# 26

## Time for change

How the international standard setting environment for audit is changing to strengthen the profession



# 01

### NEWS

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

# 10

### FEATURES

- 10 Home truths  
How and why short selling has become more popular in Hong Kong
- 17 Thought leadership: Irene Chu and Patrick Kirby  
How Hong Kong can maintain its entrepreneurial spirit

- 18 Leadership: Kevin Fitzgerald  
Asia Regional Director of Xero on why moving towards cloud technology is the right direction for businesses
- 24 How to  
Thian Chew, Founder at Polar Ventures on how to turn a start-up into a successful, long-lasting business
- 26 Time for change  
How the standard setting regime helps to maintain integrity within the audit profession
- 32 Success ingredient: Bonnie Chan  
Chief Operating Officer at IBM Hong Kong on the importance of embracing technological change
- 38 Strength in numbers  
Seven CPA Trailwalkers speak on their intense training regimen for this year's 100-kilometre Oxfam Trailwalker race, and look back on previous harrowing races

# 44

### SOURCE

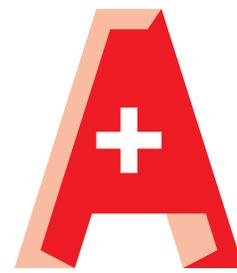
- 44 Using tax legislation to promote research and development activities in Hong Kong  
An overview of Hong Kong's research and development deduction regime
- 49 Lessee accounting: Farewell to Hong Kong Interpretation 4  
The implications following the withdrawal of HK-Int 4 ahead of the arrival of IFRS 16
- 50 Examining the public consultation papers on implementation rules for new Mainland Individual Income Tax laws  
The key changes behind implementation rules
- 54 TechWatch 192



# 18

## Making connections

Xero's Asia Regional Director on why businesses and accounting firms should move to cloud-based technology, or risk losing out



### 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.



**President** Eric Tong

**Vice Presidents** Patrick Law, Johnson Kong

**Acting Registrar** Jonathan Ng

**Editorial Manager** Paul Smith

**Editorial Coordinator** Maggie Tam

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

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

# 56

## AFTER HOURS

### 56 Books

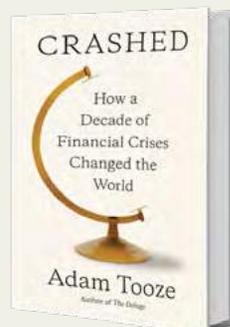
*Crashed: How a Decade of Financial Crises Changed the World* reviewed and interview with author Adam Tooze

### 58 Life and everything

From a literary festival, to the city's biggest music festival and an augmented reality-inspired art exhibition

### 60 Let's get fiscal

Lucky numbers aren't so lucky, says Nury Vittachi



Book review

## M&L

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

**Copy Editor** Jemelyn Yadao

**Editorial Assistant** Jeremy Chan

**Contributors** Nicky Burridge, George W. Russell, Kate Whitehead

**Editorial Office**  
G/F, Bangkok Bank Building, 18 Bonham Strand West, Sheung Wan, Hong Kong

**ADVERTISING ENQUIRIES**  
**Advertising Director** Derek Tsang  
Email: [dereksang@mandl.asia](mailto:dereksang@mandl.asia)  
Tel: (852) 2164-8901

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

© Hong Kong Institute of Certified Public Accountants  
October 2018. Print run: 7210 copies  
The digital version is distributed to all 42,947 members, 17,860 students of the Institute and 2,358 business stakeholders every month.



# News

Institute news    Accounting news

## Institute news

# Institute prepares to launch new website

The Institute will launch a newly updated website mid-November. The website will provide an improved user experience through easier navigation and integration with your member's account to offer you information relevant to your interests. As the first phase of the Institute's Digital Strategic Plan, this new website will be a platform from which the Institute updates all its digital platforms and provides you with a more user-friendly, user-centric way of accessing the services you need.

### AGM booklet and Council election nomination

The Institute sent members the notice of the annual general meeting, to be held on 13 December at the Auditorium of the Institute. Members interested in standing for Council should submit their nomination form by 5:30 p.m. on 19 November. The booklet also includes a message from the President about the Institute's activities over the financial year and summary financial statements.

### Council minutes

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

### Annual Dinner 2018

The Institute's Annual Dinner will take place on 3 December at the Hong Kong Convention and Exhibition Centre. This year's theme, Accounting Plus, represents CPAs going beyond their traditional core competencies of accountancy and into higher value-added specializations, ensuring the accounting profession remains a rich and rewarding career. Book your tickets now.



The Institute's dragon boat team at the the CPA Cup – National Day Celebration Dragon Boat Invitational Race 2018

### China Today Series

The Institute has launched a new continuing professional development series, the China Today Series, to provide members with insights into the Mainland's development – and how they can gain from it. The seven-event series, running until December, addresses the latest developments in Mainland China ranging from an overview of the economic outlook, to exploring new business opportunities both inside and outside China, and the continued opening up of the Chinese economy to the world.

### 2018 SMP Symposium

The SMP Symposium on 30 November will feature updates on topical issues affecting small- and medium-sized practitioners, including taxation, major financial reporting and auditing standards, legislation affecting companies, proposed changes to the Practical Experience Framework, practice review and compliance matters, as well as recent development of the Institute and the International Federation of Accountants.

There will also be a session to meet the Legislative Council Functional Constituency - Accountancy Member, the Honourable Kenneth Leung.

### Sports events

The Institute's dragon boat team participated in the CPA Cup – National Day Celebration Dragon Boat Invitational Race 2018 on 7 October against 15 other teams.

Join us as a CPA running team member for the Standard Chartered Marathon 2019 to give the Institute a better chance to win the "Most Supportive Group Award" and get a booth. With the booth we will be able to provide various on-site support, including storage for 10-kilometre runners, hot food, physiotherapy treatment and more. Register now and also invite your family and friends to join our team.

Good luck to the Institute's seven teams participating in the Oxfam Trailwalker on 16-18 November. You can read more about what motivates the teams on page 38.

## Disciplinary findings

### Chang Wai Hang, Alab, CPA

**Complaint:** Failure or neglect to observe, maintain or otherwise apply the fundamental principle of *Professional Behaviour* in the Code of Ethics for Professional Accountants and being guilty of dishonourable conduct.

Chang was the sole shareholder and director of a secretarial service company. He handled fund transfers of two companies which represented monies arising from fraudulent investment schemes. In February 2014, Chang was convicted in District Court case DCCC 721/2013 of two counts of dealing with property known or believed to represent proceeds of an indictable offence, contrary to section 25(1) and (3) of the Organized and Serious Crimes Ordinance (Cap. 455). He was sentenced to imprisonment for four years and six months. His application for leave to appeal was later dismissed by the Court of Appeal.

**Decisions and reasons:** Chang's name was ordered to be removed from the register of CPAs for 10 years with effect from 16 October 2018. Further, Chang was ordered to pay disciplinary proceedings expenses of the Institute of HK\$34,432. When making its decision, the Disciplinary Committee considered the particulars in support of the complaint.

### Cheung Yiu Hung, CPA (practising)

**Complaint:** Failure or neglect to observe, maintain or otherwise apply (i) Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; (ii) Hong Kong Standard on Auditing (HKSA) 500 *Audit Evidence*; and (iii) HKSA 230 *Audit Documentation*.

Cheung is the sole proprietor of Y.H. Cheung & Company (practice) and is responsible for the practice's quality control system and audit engagements. In 2014, a follow-up practice review was conducted to determine whether the practice had taken appropriate actions in response to findings identified during the first practice review in 2013. The findings of the follow-up visit indicated that the practice failed to implement necessary improvements to ensure an adequate system of quality control and address audit deficiencies identified from the first practice review.

Cheung appealed the Disciplinary Committee's decision. On 31 July 2018, the Court of Appeal handed down its judgment dismissing Cheung's appeal.

**Decisions and reasons:** Cheung was reprimanded. The practising certificate issued to Cheung is to be cancelled and no practising certificate shall be issued to him for 18 months. In addition, Cheung was ordered to pay a penalty of HK\$50,000 and the costs of disciplinary proceedings of HK\$128,636. When making its decision, the Disciplinary Committee took into consideration the particulars in support of the complaint, the parties' submissions and the conduct of Cheung throughout the proceedings.

### Li Kwok Cheung, George, CPA

**Complaint:** Being guilty of dishonourable conduct.

Li was an executive director of a financial service company which acted as financial adviser to Grand Field Group Holdings Limited, a Hong Kong listed company. In 2002, Grand Field purported to invest in a project that was in fact fictitious. When the Stock Exchange of Hong Kong later investigated Grand Field's purported investment, Li advised or assisted Grand Field in preparing written responses to the exchange and drafting a public announcement. Hoping to curb continuing queries from the exchange, Li acted with certain other individuals to devise a purported sale of the project which was in reality a sham involving a circular fund flow. The sham sale went ahead in 2003.

**Decisions and reasons:** Li was removed from the register of CPAs permanently with effect from 21 October 2018. He was also reprimanded and ordered to pay a penalty of HK\$375,000 and costs of the disciplinary proceedings of the Institute of HK\$221,039.20. The Disciplinary Committee noted this is a serious case involving fraud and dishonesty, in which Li played a central role as a financial adviser. He committed a serious breach of integrity and showed no remorse. The committee considered that a permanent removal from membership was commensurate with Li's breach and would maintain public confidence in the integrity of the profession.

Details of the disciplinary findings are available at the Institute's website: [www.hkicpa.org.hk](http://www.hkicpa.org.hk).

# Chinese movie star Fan Bingbing hit with big tax fine

Chinese actor Fan Bingbing has been fined for tax evasion. She was ordered to pay 884 million yuan in fines and unpaid taxes after Chinese tax authorities found she failed to pay about 255 million yuan in dues, according to the *Xinhua News Agency* this month.

The investigation began over Fan's reported income from the upcoming film *Air Strike* starring Bruce Willis in which she makes a special appearance. The tax authorities discovered that Fan earned 30 million yuan for the film, but split her earnings into two separate contracts, known as "yin-yang" contracts, comprising a public contract for 10 million yuan, and a secret one for 20 million yuan, according to *Xinhua*. The practice refers to celebrities who sign two contracts: one with their actual salary and another with a lower figure that is submitted to tax authorities.

China's State Administration of Taxation said that it was rolling out a campaign to tighten its tax policies and collection methods within the television and film business.

The film's release in China has been cancelled in the wake of the tax scandal. It was originally due to air on 17 August, then delayed until 26 October.

The actress, who had been missing since July amid rumours of possible wrongdoing, reappeared earlier this month and apologized on her social media account.



**IAASB revises standard for auditing accounting estimates**

The International Auditing and Assurance Standards Board (IAASB) has revised International Standard on Auditing 540 *Auditing Accounting Estimates and Related Disclosures*, as part of its efforts to improve audit quality globally. The revisions include an enhanced risk assessment that requires auditors to consider complexity, subjectivity and other inherent risk factors in addition to estimation uncertainty, and an emphasis on the importance of applying appropriate professional scepticism when auditing accounting estimates to foster a more independent and challenging sceptical mindset in auditors. Still subject to final approval by the Public Interest Oversight Board, the changes come into effect on 15 December 2019.

**EU plans to boost powers to counter financial crime**

The European Union (EU) plan to counter money laundering at banks urges a review of a series of high-profile cases but does not propose a comprehensive reform of EU rules, *Reuters* reported this month after seeing a draft document. The EU’s plan is in response to alleged scandals involving lenders in Denmark, Estonia, Latvia, Luxembourg, Malta, Spain, the Netherlands, United Kingdom and Cyprus conducting money-laundering schemes through foreign branches within the EU. The document, dated 29 October, mandates the European Central Bank (ECB) and the European Commission to review alleged money-laundering cases by mid-2019 with a view to “possible additional actions” to bolster the EU legal framework. It is subject to changes until its adoption in early December. According to *Reuters*, the draft does not explicitly mention forming a common agency to supervise financial crime, as demanded by the ECB.



**U.K. Big Four face competition probe**

Britain’s competition watchdog announced this month that it was launching an investigation into the audit sector. The Competition and Markets Authority (CMA) will look into the dominance of the Big Four and whether the sector is “competitive and resilient enough to maintain high quality standards,” following fears that the sector is not working well for the economy or investors. Andrew Tyrie, Chairman of the CMA said: “If the many critics of the audit process are right, it is not just the companies which buy audits that lose out; it is the millions of people dependent on savings, pension funds and other investments in those companies whose audits may be defective.” The announcement came a day after the Financial Reporting Council said that it was working with the CMA to consider whether the Big Four should be banned from offering consultancy services to clients they audit.



**KPMG South Africa to replace CEO**

Nhlamulo Dlomu will step down from her role as Chief Executive Officer of KPMG South Africa, the firm announced this month. The move to find a new leader from outside the firm is part of its aim to restore its reputation following the corruption scandal involving VBS Mutual Bank and the politically-tied Gupta family, which has led to it losing several major clients and cutting jobs. Dlomu will remain at the firm, but take on a new global role with a focus on organizational cultural change and ethical leadership. She said: “It has been a huge privilege to lead KPMG this past year. Although it has been challenging, we have managed to stabilize the business.” Until a successor is found, the firm’s Chairman, Wiseman Nkuhlu, will serve as an executive chair.

**A world of numbers**



The percentage drop of Xiaomi’s stock on the morning of 29 October after China’s Ministry of Finance said that the smartphone maker made errors in its accounting. In its report, the ministry said Xiaomi had made tax errors on corporate gifts and had incorrectly recorded some corporate costs. It noted that the errors have already been rectified.

**US\$17.6 billion**

The value raised by venture-backed companies in Asia-Pacific across 391 deals in Q3 2018, according to Venture Pulse, KPMG’s quarterly analysis of venture capital (VC) trends. China led global investment activity in the quarter, accounting for seven of the 13 largest VC financing deals globally and nine of the top 11 in Asia-Pacific.

**31.6%**

The percentage difference between the salaries of female and male finance directors in the U.K. The difference is greatest in senior roles, where women earn an annual average of £42,674 while men earn £71,986, making it a difference of £29,312 a year.

# 你的未來工作間

HP Elite個人電腦配合Windows 10專業版  
與你攜手邁向未來



優惠價發售

## HP EliteBook 830 G5 (3QP07PA#AB5)

處理器	第8代Intel® Core™ i7-8550U處理器
作業系統	Windows 10 Professional 64 bit
記憶體	1 x 8GB DDR4-2400 SDRAM
儲存設備	256GB SSD PCIe® NVMe™ Value TLC
顯示屏	13.3" 全高清IPS 防眩光LED背光 HP Sure View內置私隱螢幕
重量	1.33kg
尺寸	31 x 22.93 x 1.77 厘米



優惠價發售

## HP ProDesk 400 G5 SFF (5LH61PA#AB5)

處理器	第8代Intel® Core™ i5-8500處理器
作業系統	Windows 10 Professional 64 bit
記憶體	1 X 8 GB DDR4-2400 SDRAM
儲存設備	256GB SSD M.2 PCIe® NVMe™ TLC
光碟機	Slim ODD
前方插槽	2 X USB 3.1 / SD讀卡器
後方插槽	2 X USB 3.1 / 4 X USB 2.0 2 X DisplayPort™ / Audio I/O VGA連接埠 / RJ-45連接埠



額外附送後備HP 90W USB-C充電器



三年上門保養及意外損毀保障



三年HP主動分析及管理



三年HP主動分析及管理

立即查詢

(852) 2779 8882

enquiry@eastech.com.hk

凡惠顧以上任何電腦套裝即可以 **HK\$960**  
換購 **HP ProDisplay P223 21.5" 顯示器**



(X7R61AA#AB4)

如查詢 **買機優惠** 即有機會獲得  
**"YOOV"** 智能化人力資源管理系統  
了解更多...



### 條款及細則：

1. 以上優惠有效期至2018年11月30日。
2. 所有價格、產品圖片和規格均為營銷目的，僅供參考。
3. Eastech Systems Limited將保留更改或上述(全部或部分)推廣優惠而不作通知。在任何情況下，本公司保留最終決定權。
4. 以上所有內容只供參考，規格及外觀以最終出售產品為準。如有疑問請向相關人員查詢。
  - Intel、Intel圖誌、Intel Inside、Intel Core、和Core Inside是Intel Corporation或其子公司在美國和/或其它國家的商標。
  - Intel處理器編號並不代表效能。處理器編號可區別每個處理器系列的功能，但無法區別不同的處理器系列。
  - 請參閱<http://www.intel.com.tw/content/www/tw/zh/processors/processor-numbers.html>以取得詳細資訊。
  - Multicore is designed to improve performance of certain software products. Not all customers or software applications will necessarily benefit from use of this technology.
  - Performance and clock frequency will vary depending on application workload and your hardware and software configurations. Intel's numbering is not a measurement of higher performance.





### 1 Green group to talk sustainability at WCOA

The Accounting for Sustainability (A4S) project will promote sustainability at the World Congress of Accountants (WCOA). The A4S project, established by Prince Charles, challenges accountants to inspire action in the global finance industry and drive a fundamental shift towards resilient business models and a sustainable economy. Executive Chairman Jessica Fries, who will lead a session entitled “Can accountants save the world?” told *Accounting Today*: “The risks from environmental, social and economic crises are clear to see – not just for our planet and society, but also the future resilience of the global economy.” Attracting over 6,000 accountants and business leaders from over 130 countries, the WCOA will take place in Sydney, Australia from 5-8 November.

### 3 EY U.K. scraps final stage of interview process

EY in the United Kingdom is replacing its one-to-one interview with an assessment event for the final stage of its student recruitment process. The change is part of the firm’s plan to cut the process from nine weeks to five, and increase diversity among new employees. Announced this month, the assessment event will comprise of eight separate activities all in one day, with five appraisers then providing input on whether to offer the job. Research commissioned by the firm on perceptions of graduate and apprenticeship application processes at large organizations found that 28 percent were put off from applying as they thought the process was too stressful, while 21 percent believed it was too time consuming. KPMG also shortened their multi-stage interview process in 2016 for similar reasons.

### 2 Vegan start-up seeks investors for possible IPO

Vegan food startup Beyond Meat has made plans to go public. According to *CNBC*, the company has sought help from investment banks including JP Morgan, Goldman Sachs and Credit Suisse to lead the initial public offering (IPO), but has not specified the valuation amount. The IPO is the first of its kind for a company which makes vegetarian food products which appeal to meat-eaters. Now in its ninth year of operation, the Los Angeles-based company was founded by Chief Executive Officer Ethan Brown, and is most well known for its Beyond Burger, a burger patty made with plant-based proteins. Since 2016, it has sold more than 26 million burgers. Its list of investors includes billionaire Bill Gates and film star Leonardo DiCaprio.

### 4 Trump denies tax allegations

United States President Donald Trump has denied dodging a hefty tax bill, when he inherited money from his father in the 1990s. A detailed investigation by *The New York Times* on 2 October, found that Trump’s parents transferred more than US\$1 billion in wealth from their real estate empire to their children, which could have produced at least US\$550 million worth of taxes. The Trumps, however, have only paid back a total of US\$52.2 million, or about 5 percent, according to *Economia*. Following the report, a spokesman for New York’s tax authority said, “The tax department is reviewing the allegations in the [*Times*] article and is vigorously pursuing all appropriate avenues of investigation.”

## Short selling

Hong Kong

In just 90 minutes, Hong Kong-listed China Huishan Dairy saw its shares plunge by 85 percent in March last year, wiping US\$4 billion off its market capitalization.

The sell-off occurred weeks after activist short seller Muddy Waters Research published a report accusing the company of inflating its profit margins, revenue and capital expenditure, and concluded the company was “worth close to zero.”

China’s largest integrated dairy company eventually filed for provision liquidation in November last year with estimated debts of RMB10.5 billion.

China Huishan Dairy is not the only Hong Kong-listed company to catch the attention of short sellers. Luggage company Samsonite, e-commerce platform Cogobuy Group and aluminium smelter China Hongqiao Group, to name a few, all suffered steep share price falls following the publication of critical reports by research groups.

Short selling is on the rise in Hong Kong, and despite the negative impact it can have on individual companies, many investors view the trend as an important feature of a healthy market.

Short selling refers to the practice of borrowing shares from a third party and selling them, in the hope that they can be bought back at a later date for a lower price, generating a profit. The majority of short selling is done by institutional investors and hedge funds as a way of cushioning investors from falling markets or because they believe companies have become overvalued.

There is also a vocal group of activist short sellers that publish research reports on companies they think have fraudulent business or accounting practices. These reports typically trigger sharp share price falls or lead to trading in the target’s shares being suspended.

In the first six months of 2018, average daily short selling turnover in Hong Kong totalled HK\$14.5 billion, accounting for 11 percent of total market turnover, up from 9 percent of turnover in the first half of 2012, according to figures from the Securities and Futures Commission (SFC).

Despite the increase, in general, short selling in Hong Kong remains significantly lower as a proportion of total market turnover compared with more mature markets, with short selling turnover on the New York Stock Exchange and the Tokyo Stock Exchange typically accounting for more than 20 percent of daily trades.

Jeffrey Chan, Director of asset manager OP Investment Management, points out that short selling in Hong Kong was higher in both absolute terms and as a percentage of total market turnover during the first half of 2018, compared with a year earlier. He suggests the increase may simply reflect investors taking a more cautious view of market conditions.

But Kevin Leung, Executive Director – Investment Strategy at Haitong International Securities, says there has also been an increase in activist short selling reports targeting Hong Kong-listed companies. He thinks the rise is being

# HOME TRUTHS

While still low compared with other markets, short selling and damning reports are rising in Hong Kong. Nicky Burrige finds out why

Illustrations by Gianfranco Bonadies





driven by a combination of companies being overvalued or overhyped, as well as an increase in new economy companies that use non-traditional accounting standards that do not always simply reflect the true value of the business.

There are also suggestions that activists are deliberately targeting companies in the region due to perceived weaker corporate governance standards, which create opportunities for short sellers.

Soren Aandahl, Founder and Chief Investment Officer of short seller Blue Orca Capital, whose research report on Samsonite's accounting practices caused its chief executive officer to step down in May, says: "Every market, no matter how mature, will have rotten apples. That said, I think corporate governance standards are more mature in markets like the United States as compared to the Asia-Pacific region."

He adds that while many companies in Mainland China hold themselves to the highest standards of truthful disclosure, accountability and good governance, others do not. "In the Hong Kong and Chinese markets, there are some companies that are tightly controlled by an all-powerful chairman, unchecked by strong independent directors and basically unaccountable to shareholders," he says. It is companies such as these that are particularly vulnerable to activist short sellers.

Carson Block, Founder of Muddy Waters, is more critical. He says: "Corporate governance in Hong Kong is poorer than in most, if not all, of the developed markets that we have observed. Boards of directors tend to be more incestuous and when we see stock manipulations and fraudulent promotions, we often see the same directors involved in numerous problematic companies. Even in cases where the misconduct has been proven, most of these corporate directors go unpunished. That's a bad sign."

**“Dissenting opinions are so critical to the markets because they are so few. So many of the voices in the market are incentivized to pump companies and avoid any critical commentary of management.”**

### A dissenting voice

Short sellers are often viewed by the companies they target as a destructive force that increases share price volatility. The potential negative affect they can have on a market is also reflected by the fact that regulators in some countries have banned the practice during periods of significant turbulence. For example, the short selling of financial stocks was banned by the United States' Securities and Exchange Commission in 2008 during the global financial crisis. Despite this fact, many investors consider short selling to be an important feature of a modern and developed financial market.

An SFC spokesman points out that short selling activities are used to facilitate a wide range of market activities, including managing the price risk of derivatives products, enhancing price efficiency, and increasing liquidity in the market.

Chan adds that the practice also enables investors to deploy different investment strategies, allowing them to benefit from both rising and falling markets. "Short selling enhances the price discovery process in the stock market. It helps generate more accurate

pricing and reduces the risk of securities becoming overvalued," he says.

Block points out that activist short sellers add to transparency by providing more information for investors to make their decisions and by pressuring companies into being more transparent and investor-friendly. "Non-activist short selling is also an important price signal for long investors," he says.

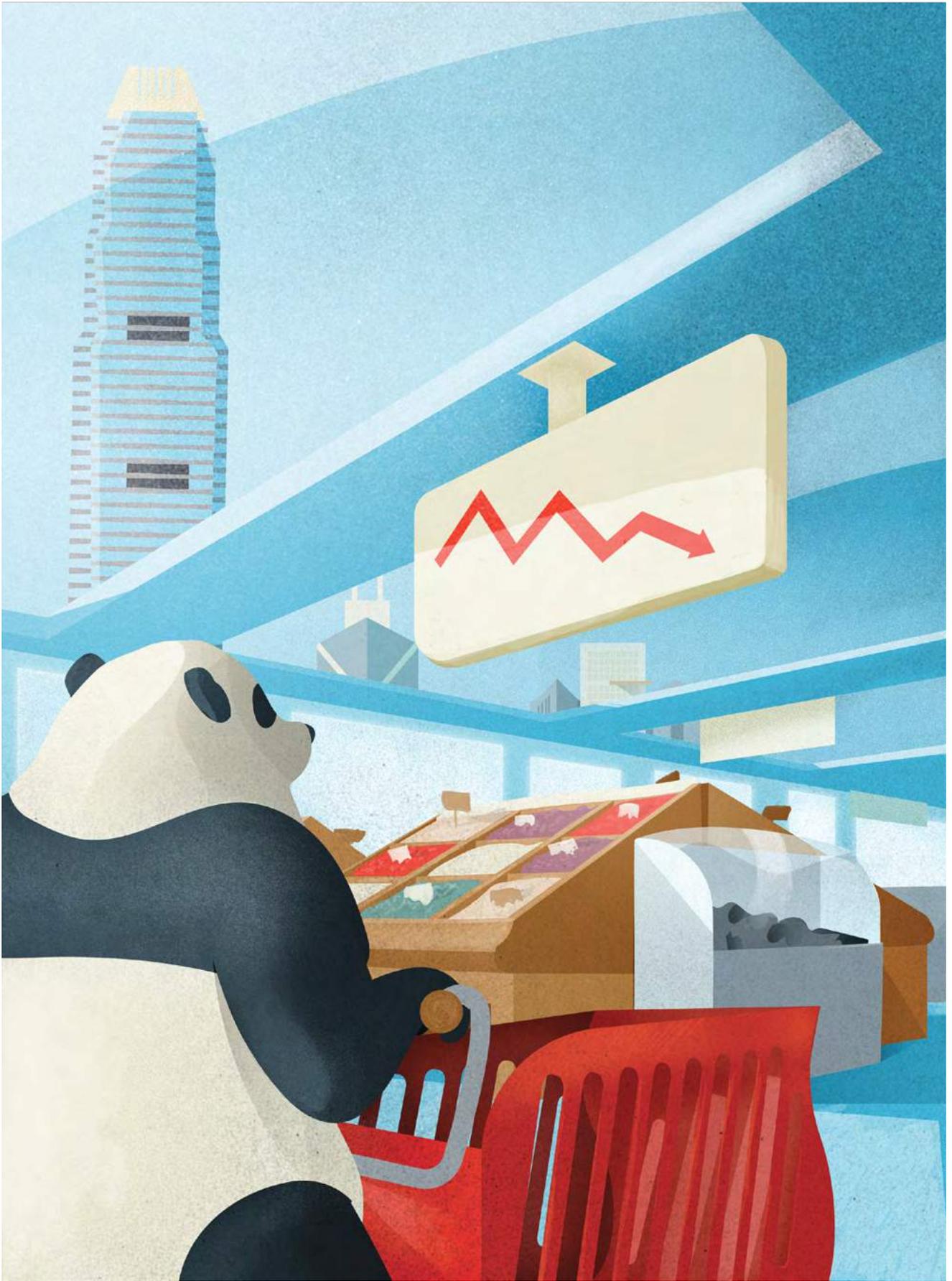
Aandahl puts it more strongly, saying: "Dissenting opinions are so critical to the markets because they are so few. So many of the voices in the market are incentivized to pump companies and avoid any critical commentary of management." He points out that the management teams of listed companies are incentivized for stock prices to go up, regardless of whether they exceed the basic fundamental value of the underlying business, while investment banks that issue research reports also get paid for banking business generated by listed companies, such as initial public offerings, and acquisitions through debt and equity issuances.

Aandahl adds that the relationship between service providers, including auditors and law firms, and companies can act as a deterrent to them alerting the market to issues. He says: "Short sellers occupy a unique place in the ecosystem. As a lone dissenting voice, they can offer a critical opposing viewpoint among of cacophony of voices relentlessly pumping a stock."

Short sellers can also act as a deterrent to management misconduct, while markets allocate capital more efficiently when there is greater transparency, he adds.

### Regulatory restrictions

Sometimes, false information is circulated. An SFC spokesman says: "The main regulatory concern is the potential for short selling to be used to facilitate market abuse or to cause extreme price movements, such as triggering



# Short selling

Hong Kong



a precipitous stock price decline, which may contribute to disorderly markets when market confidence is fragile.”

Hong Kong has a robust regulatory regime governing short selling, with a number of restrictions placed on the practice. Only securities that meet certain size and liquidity requirements are eligible for short selling, excluding many smaller companies, while only “covered” short selling – under which short sellers must have borrowed the securities before placing any short selling orders in the market – are permitted.

The SFC also requires a full audit trail for all covered short sales, and short sales must be executed at or above the best current ask price, known as the “tick rule,” on the Hong Kong Stock Exchange’s trading system.

Short positions held by market participants above certain thresholds must also be reported to the SFC on a weekly basis.

The SFC’s spokesman says: “Hong Kong has put in place a robust regulatory framework to minimize the potential risks while realizing the benefits of short selling as much as possible.”

But Aandahl would like Hong Kong’s regime to be expanded to allow the short selling of shares in smaller companies, pointing out that under the current rules, a large part of the market is not shortable.

“This rule has a paradoxical effect of removing the counterweight of shorts to smaller companies where it is needed the most – because, as a general rule, smaller companies are less likely to have optimal governance structures and are more vulnerable to promotional management teams and questionable accounting decisions by management,” he says.

Despite the regulatory measures in place, the market is not immune from abuse, with the SFC taking

four enforcement actions in the past nine months in relation to non-compliance with short selling regulations.

Short selling victim China Hongqiao Group also took the step of obtaining a court injunction last year against Hong Kong-based Emerson Analytics, preventing it from releasing any further negative reports on the company.

There is also not much to stop short sellers from circulating false information. Leung at Haitong International Securities says: “These reports can bring chaos to the market without any substantiation. If someone wanted the share price of a company to come down, they could just make something up and put it in a report.”

But he adds that while tighter regulation in this area would be desirable, there are often limits to what local regulators can do, as many of the short seller activists are based offshore.

### Company defenders

Accountants have a significant role to play in both helping companies avoid becoming short selling targets and identifying companies with suspect accounting practices. “The key role of public accountants for listed companies is to ensure that financial statements give a true and fair view of the company’s financial position,” says the SFC’s spokesman. “This would go a long way towards helping the company defend itself against any allegations questioning its financial position.”

Leung thinks activist short sellers are increasingly targeting companies with accounting that is “irregular or complicated,” particularly for new economy companies that may have fair value changes or incorporation of less common accounting standards that can be more difficult to verify for the normal investor.

In these cases, he thinks accountants can act as “gatekeepers,” closely monitoring results and ensuring the company’s accounts are a fair representation of the underlying business.

Chan agrees, pointing out that the financial reports prepared by accountants are used by investors as one of the key bases for making investment decisions. “Short sellers often deploy forensic accountants to decipher complex financial positions of listed issuers to screen potential short selling targets,” he says.

Aandahl also believes accountants have a crucial role to play in finding short selling targets: “Many good short ideas begin with basic financial statement analysis, and thorough scrub of a company’s critical accounting policies.”

He gives the example of a report by Glaucus Research Group, where he worked before founding Blue Orca Capital, which accused China Metal Recycling of securities fraud on the grounds that it was deceiving the market about the size of its business. Glaucus used publicly accessible import data from the Chinese government to show that the company could not be legally sourcing anywhere close to the volume of scrap needed to produce its reported volume of processed metals. Its report proved to be right, and China Metal Recycling was eventually wound up following an SFC court order.

It is because of instances like this that Aandahl believes activist short sellers have a vital role to play in a healthy market. “There will certainly be growing pains but in the long run, increasing management accountability through truly independent and strong boards and increasing transparency through more robust disclosures will only enhance shareholder returns and the overall attractiveness of these markets.”



In the first six months of 2018, average daily short selling turnover in Hong Kong totalled HK\$14.5 billion, accounting for 11 percent of total market turnover, up from 9 percent of turnover in the first half of 2012, according to the Securities and Futures Commission.



# RELEVANCE PLUS EASE

Read the latest issue now by visiting

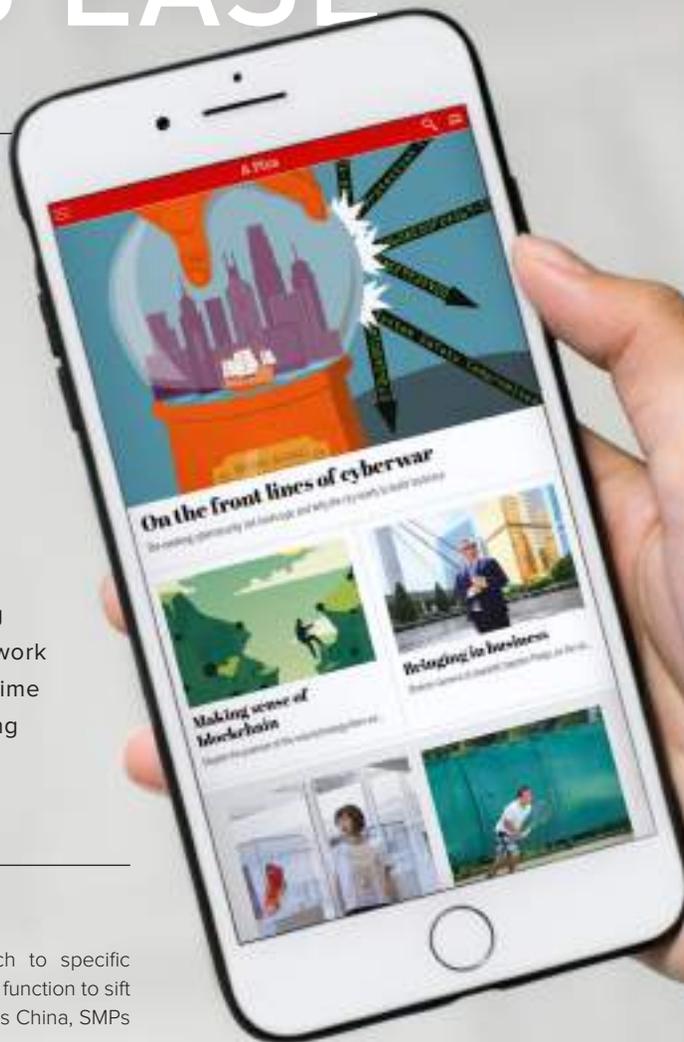
[www.hkicpa.org.hk/aplus](http://www.hkicpa.org.hk/aplus)



Experience *A Plus* in a totally different way with the new online version optimized for mobile users.

Revamped with a simple and refined layout, you can now seamlessly browse through articles to keep up with the developments impacting the profession.

Whether you are waiting for the train on the way to work or in the taxi, catch up anytime with the Institute, accounting and business news.



 Narrow down your search to specific articles by using the topics function to sift through categories, such as China, SMPs or technology

 Bookmark articles of interest and read them later

 Easily access past issues of the magazine by using the archive function



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



Driving business success

**Thought leadership**

Irene Chu and Patrick Kirby

Irene Chu, Partner, Head of New Economy and Life Sciences, Hong Kong, and Patrick Kirby, Director at KPMG China on how focusing on purpose and enabling capability will help the city achieve its ambition to be a major innovation and technology hub



# Rekindling Hong Kong’s entrepreneurial spirit

**H**ong Kong’s history boasts a rich tradition of entrepreneurship – from its emergence as a manufacturing and export hub in the 1950s to its development of a services-oriented economy since the 1970s. This entrepreneurial spirit has heavily influenced the four key industries of Hong Kong: tourism, trade and logistics, professional and producer services, and financial services.

Yet, Hong Kong’s strength in these core industries is no guarantee of its future success. The unique advantage these traditional industries have enjoyed is becoming less apparent in an increasingly digitized world, and the shift from the physical transfer of products to the digital transfer of information has transformed market dynamics, making language and geographic location less relevant. As a result, revitalizing Hong Kong’s vibrant entrepreneurial spirit has never been more important to the city’s long-term development.

According to recent research conducted jointly by KPMG and the Alibaba (Hong Kong) Entrepreneurs Fund, transforming Hong Kong’s landscape requires two factors: encouraging entrepreneurs to fulfil their purpose, and improving supporting capabilities. Based on findings from key opinion leaders, 100 business founders and 300 university students, this means providing encouragement and inspiration while increasing the quality and flow of knowledge, talent, and capital.

**Emphasizing purpose to drive innovation**

The study shows that purpose is a major driver among would-be entrepreneurs in Hong Kong. 87 percent of student respondents cited a desire to advance their community’s development as a main reason for starting their own ventures. Playing a proactive role in changing the world (82 percent) and solving problems for people

(81 percent) were other key motivators.

Despite this strong sense of purpose, only 15 percent of respondents believe the city’s entrepreneurial mindset makes it more attractive compared with other global innovation hubs. The study reveals that entrepreneurs were only moderately ambitious for their business – 48 percent expected to generate revenues under HK\$10 million by 2020 – and were more focused on domestic rather than global markets.

This is compounded by societal expectations to pursue more “stable” careers. Only 28 percent of students surveyed felt they had support from their family to start a business and many said they are often expected to forgo opportunities in science, technology, engineering, arts and mathematics to enter careers in financial services.

**Improving capabilities to boost entrepreneurship**

The commercialization of research is a key way Hong Kong can support entrepreneurs. In her 2018 Policy Address, Chief Executive Carrie Lam committed to improving upon the city’s strengths in scientific research and promoting technology transfer, by doubling funding for three relevant schemes. This is consistent with her earlier commitment to increase the city’s research and development (R&D) spending from 0.73 percent to 1.5 percent of gross domestic product within five years. China’s central government has also announced that it would support Hong Kong scientists by giving them increased access to grants. In addition, Hong Kong has introduced the Technology Talent Admission Scheme, which offers fast-track arrangements to companies in the Hong Kong Science and Technology Park and Cyberport to bring in skilled staff from the Mainland and abroad.

However, the research shows that Hong

Kong’s start-ups are not taking full advantage of the range of support services offered by public and private entities. For example, while entrepreneurs in other cities regard mentoring as a key growth driver, only 10 percent of Hong Kong-based founders use mentors regularly. The commercialization of R&D support was also low, at 15 percent.

Furthermore, Hong Kong is not fully capitalizing on its role as a gateway to Mainland China. Only 31 percent of entrepreneur respondents saying that the city’s start-ups are collaborating effectively with their peers in the Greater Bay Area.

**Suggested next actions**

To instil a strong sense of purpose and improve Hong Kong’s innovation capabilities and entrepreneurial ecosystem, the study recommended the following six key actions:

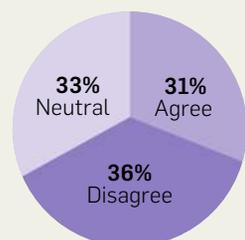
- Facilitate the free flow of academic, R&D, and business knowledge
- Strengthen, expand, and connect a network of experts across the Greater Bay Area and internationally
- Improve capability and expand access to capital and financial services
- Promote and simplify access to support services
- Increase awareness of entrepreneurship through community engagement and participation
- Enhance the development of the entrepreneurial mindset to support future jobs

Combined improvements in purpose and capability factors can rekindle Hong Kong’s entrepreneurial spirit and boost its status as a premier innovation and technology hub – ultimately bringing long-lasting economic benefits to the city and the region as a whole.

Support for students to pursue entrepreneurship



Percentage of entrepreneurs who think Hong Kong businesses are well-connected with businesses in the Greater Bay Area



## Leadership profile

Kevin Fitzgerald

Kevin Fitzgerald started his career 20 years ago at accounting and advisory firm Moran and Partners as an audit manager and then worked at KPMG as audit senior in the Channel Islands



SINGAPORE

# MAKING CONNECTIONS



Kevin Fitzgerald's accounting knowledge and background helped him land the role of Asia Regional Director at Xero in Singapore. He tells **Nicky Burridge** why the focus is no longer big vs. small, but insight vs. greater insight

Photography by Juliana Tan

It is not often that professionals in the accounting sector get stopped in the street, but that is what happened to Kevin Fitzgerald, Regional Director of Asia at software platform Xero, on the day he opened the Hong Kong office earlier this year.

"I wear Xero T-shirts to work, and I got stopped on Lockhart Road in Wan Chai by a lady who asked if I worked for Xero, and if we had an office here," he remembers. "I explained to her who I was, and she said, 'I love Xero.' I said, 'Do you realize you just told me you love an accounting platform?'"

Fitzgerald got chatting to her to find out why she was so enthusiastic about the company. She told him the platform had helped her to become more efficient, enabling her business to be more successful but also giving her time back in her own life. "She did not really love Xero – she loved what Xero had allowed her to do," he says.

The incident was not a one-off. "If you walk around Australia in a Xero T-shirt, you will have people beeping their horns on the roads and waving at you. It is really bizarre," he says.

Xero is a New Zealand-based software platform that simplifies financial management for small- and medium-sized enterprises (SMEs) and accounting firms. It has 1.38 million subscribers around the world.

The platform has more than 700 different add-ons, ranging from online invoicing and bank reconciliation to real-time accounting dashboards, enabling companies to invoice faster, get paid more quickly, and gauge their financial health on a daily basis.

## Leadership profile

Kevin Fitzgerald

Fitzgerald says the online invoicing tool, which sends out automated reminders and tracks when a customer has seen an invoice as well as when they have paid it, is one of the platform's most popular features.

When the system was first launched in Hong Kong, the average number of days it took for an invoice to be settled came down from 43 days to just 32 days.

"With online invoicing, you can send your customer an invoice with a hyperlink, so they can pay online straightaway. This is where we see cash flow become a lot less of a problem for businesses," Fitzgerald says.

The platform also includes direct bank feeds, which enable business owners and their accountants to get real-time information on their financial position, with transactions from their bank account automatically flowing into Xero's platform overnight. It is also currently in the process of launching an open-banking API to enable fintechs and other non-bank financial institutions to integrate with its platform with minimal development. "When you wake up the next day, all of your prior-day transactions are already in Xero. That is an incredible time-saver," Fitzgerald says.

He adds that this feature saves small businesses around 15 hours a month because no one has to physically enter information from bank statements into their accounting system.

As a result of this increased efficiency, Rush Hour Media, a creative web and branding agency in Hong Kong, which was introduced to Xero by accounting firm Fresh Accounting, has been able to focus more time on building its business.

"It really helped them with their invoicing and to keep track of their debts, receivables and cash flow. The business owner reckons it reduced his administration time by at least 70 percent, enabling him

to focus on scaling his business," Fitzgerald says.

"People get into small business because they are passionate about that business. They don't go into it to do debt collection or bank reconciliations, so we try to take care of that for them."

Unlike some of its competitors, Xero charges its customers on a per company basis, rather than a per user basis, with entry-level access to its platform costing US\$20 per month, while top-level access costs US\$40 per month. "Our customers are small businesses. We don't want to charge them over-the-top prices for something they don't need," Fitzgerald says.

**"Our customers are small businesses. We don't want to charge them over-the-top prices for something they don't need."**

Even so, Xero still faces hurdles in getting firms on board. "The biggest challenge is getting businesses to understand the extent of the benefits that cloud technology can deliver. The term 'cloud technology' has been so overused that people don't understand nor see what the real benefits are." He adds that the platform has so many different functions, while it is also connected to an ecosystem of third-party apps, that businesses are often confused and do not know where to start. Xero tries to overcome this by offering firms a 30-day free trial to enable them to try out the different functions and pick the subscription level that is most suited to their needs. There are also no-lock in contracts, with businesses able to terminate their subscription at any time with a 30-day notice period.

### Hong Kong expansion

Xero opened its Hong Kong office

in March in response to demand from users of its platform. "Hong Kong is a really exciting place," says Fitzgerald. We are seeing a huge amount of demand, and we are growing the number of accounting partners there into the hundreds. I see our office expanding quite quickly over the next six months."

He thinks businesses in Hong Kong are well-placed to start using accounting platforms, such as Xero's. A study carried out by the group before it opened its office in Hong Kong found that 53 percent of SMEs and accounting firms in the city were already using some kind of accounting software package, although this was typically desktop-based, and very few of them had taken the next step and moved to a cloud-based system.

"It is moving to the cloud that is generating the demand. It is something that businesses in Hong Kong find really exciting," Fitzgerald says. "Opening the office in Hong Kong is just the start of our growth, we really want to tell everyone about our platform and get them excited about it."

Fitzgerald is encouraged by the fact that many accounting firms are fully adopting Xero themselves.

"Our key strategy in Hong Kong is to form strong relationships with local accounting firms, both big and small, so that they will not only adopt us for their day-to-day accounting work but also recommend us to their clients. We believe in the power of positive word-of-mouth."

### Future-proofing accountants

With technological developments enabling many basic bookkeeping functions to be automated, Fitzgerald thinks it is important that accountants ensure they remain relevant.

"I actually feel really passionate about this and I spend a lot of time coaching junior accountants and accounting associations about the challenge the industry is facing."



Xero Small Business Insights data this month showed that businesses that use connected apps had 5.5 percent more revenue growth, compared to 3.6 percent for those that do not



## Leadership profile

Kevin Fitzgerald



Kevin Fitzgerald started working with Xero in June 2015 as territory sales manager in Melbourne, before moving to Singapore to work as regional sales director. He has been Asia Regional Director since May.

But he thinks that while the sector will be challenged by the uptake of new technology, this development gives accountants an opportunity to offer advisory services to their clients and help them to develop their businesses. “You can really only offer these advisory services if you have up-to-date rich information, and previously accountants have not had that because they were getting information from the clients three months after the fact or after the

year-end,” he says.

“Now, if we are bringing in information from the bank overnight, and the accountants are looking at it on a daily or weekly basis, they are right on top of the business, enabling them to have a rich and powerful conversation with the business owner, and that is flourishing into giving them really good advice. That is where the opportunity is.”

Fitzgerald believes technology will never completely replace

accountants, as the relationship between a professional advisor and a business owner will always be important. “Our value at Xero is ‘#human,’ and we are seeing accountants having a major influence on SMEs across the globe because they can help people understand their business better.”

But he warns that the world is changing very quickly, and accountants need to start educating themselves about how they can utilize this new technology straight



**“It is moving to the cloud that is generating the demand. It is something that businesses in Hong Kong find really exciting.”**

away and start selling additional services to their clients. “A lot of SMEs just see the accountant as an extension of the tax man. Accountants have an opportunity, but they have to tell businesses what they are capable of doing.”

Fitzgerald said he had seen some accounting firms offer free advisory and business coaching services for six months to anyone who was interested, in order to sell these additional services.

“It was a big investment of time at the start, but once clients began to tell their friends about it, it started to grow really quickly, and then it became a chargeable service,” he says.

### Accounting background

Fitzgerald believes his accounting experience has really helped him understand what small businesses need.

He started his career in Dublin in his native Ireland, nearly 20 years ago, where he worked for accounting and advisory firm Moran and Partners as an audit manager.

He adds that his first boss not only taught him accounting, but also about business. Fitzgerald likes to think he takes a similar approach to his former boss, being very consultative with clients and never assuming he knows everything about their company.

After five years, he took up a position as an audit senior at KPMG in the Channel Islands. During these early years of his career, he discovered a passion for helping people develop their businesses. “A lot of my time was spent working with SMEs and helping them understand tax requirements and compliance, but I also found I was teaching them about business – which I loved,” he says.

After a stint with Royal Bank of Canada in the Channel Islands and nearly four years as a hedge fund supervisor with International Fund Services back in Ireland, he moved into recruitment, taking a job with Robert Walters in Melbourne.

He explains that he had always enjoyed helping businesses grow and empowering his own team to achieve

success, and this passion led him into recruitment. “As I had established a strong network within the accounting circle at that time, it was a natural transition for me where I could match accountant candidates with great job opportunities.” He was also keen to work in a new country. “It was a great fit for me at that point in my life,” he says.

But when, three-and-a-half years ago, he got the opportunity to join Xero starting as a territory sales manager at the group’s Australian head office in Melbourne, he jumped at it. “The role totally appealed to me because it combined my expertise as an accountant, SME advisor and recruitment – the best of all worlds.”

He became Regional Director of Asia, based in Singapore, six months ago, where he has a team of 30 people who oversee Xero’s presence in 46 different Asian countries through small businesses and accounting partners. With only 26 percent of businesses in Singapore and 17 percent in Hong Kong having so far adopted cloud-based accounting software, he thinks Asia has significant growth potential.

“I love Singapore. It is a fantastic place to live. I can really see the pathway of our business here. I could see myself staying in Asia for quite a long time to grow the business,” he says.

When he is not working, Fitzgerald is a keen footballer. “I am getting close to retiring from football, so at the moment I’m trying to play as much football as possible before my knees and hips give up. It has always been a big love of mine.

“I am also a big motorcycle fan, I used to race motorcycles and I have had heaps of them over the years. That is another big passion,” he says.

But his passion for his day job is also clear to see. “What I like most about my role is when I go to an accounting firm or an SME to tell them about Xero, and show them what the platform can do. There is literally shock and excitement as they realize on the spot how much time they could save. I love that.” 

The Founder of Polar Ventures, a private investment and consulting firm, and speaker at the Institute's business start-up series on what startup founders need to keep in mind to expand their business



# How to take your business beyond the start-up phase

It has never been easier, or harder, to succeed as a start-up. Technology has significantly reduced the cost of starting and marketing a product or service. But these low barriers to entry also create an abundance of start-ups in the market that has made competition, for both customers and investors, more challenging than ever. By considering the following factors, entrepreneurs may stand a better chance in taking their start-up to the next level.

## People

It is the people that make a company, but it is also important to know how to attract and retain key talent. People join because of great vision but will leave due to poor leadership. Most people leave their jobs not because of money, but because of the work environment.

Not all people are created equal for the task at hand, so it is good practice to hire those who are better at the job than you are so you can more effectively scale your critical time. It may cost more for the right employee or partner, but your return in productivity will be returned many times over. Furthermore, facilitating alignment of interests will make sure your team works towards common goals for the business. This can be done through means such as equity incentives (e.g. stock incentive and purchase programmes), or bonus structures driven by measurable and appropriate or key performance indicators (KPIs) and even creating a collaborative or positive work environment.

But don't expect it all work out the first time. Since start-ups hire and pivot at rapid rates, staffing changes should also occur quickly. Some hires won't work out (often through no fault of either side) and in these instances, one also has to make fast decisions for the sake of both sides. On the flip side, retaining good talent is just as important. In these cases, consider that most people leave their jobs not because of money, but because of the work environment, and this is something a founder or manager can influence that is not dependent on money.

## Leverage social media

Building an online presence should be part of every start-up's business plan. Consumer behaviour and engagement is changing. In the world of selfies and engagement with one's phone more than other people, effective digital marketing can be a much more cost effective way to convert potential clients into customers. Previously, companies had to spend a lot of money on newspaper advertisements and television commercials. But today, with social media marketing, businesses are able to efficiently keep customers well-informed about their products and services, boost presence, and generate sales at a low cost. Entrepreneurs should consider engaging someone experienced in social media marketing either as a member of staff or a collaborative partner.

## Setting balanced set of targets

As the start-up grows, typically what worked before won't work as well. Having a clear business plan, that can be adapted as time goes on, will provide direction and ensure stability for the road ahead. Goals or KPIs should not just be financial in nature, as these tend to be backward-looking, kind of like driving a car by watching the rear-view mirror. Instead, you should focus on a portfolio of broader goals to expand your customer base through loyalty programmes, developing staff, and improving operational efficiencies in addition to financial goals. Assign a timeline for your aims, so you know exactly what you need to achieve after certain time periods such as a quarter, a year and so on. Your plan should highlight how much funding is needed, and how the money will be used to achieve those objectives. And of course, things never go according to plan, so while rolling with the punches, don't forget to focus on the "80/20," i.e., the 20 percent of things that will yield 80 percent of the benefits and keep herding those cats!

## Finding money

To summarize, there are two important themes around finding money: (1) people

want to give you money when you don't need it, and (2) everyone wants to be the first to be second to give you money (i.e., the first investor is the hardest). So be prepared that start-up money takes longer than you think to come in – and (unhelpfully) money going out happens faster than you think.

So when pitching to investors, be long-term greedy and find ways not to spend money – and there are creative ways to achieve this. Even large businesses are learning this. For example, asset light businesses (such as virtual manufacturers) are more efficient ways to manufacture products because it is easier to scale and you only pay when you need to use the resources versus needing to build your own factory first.

When dealing with investors, early stage "angel" investors tend to be driven by the vision and the founder (and can sometimes make fast emotional decisions). Later stage investors meanwhile value just as much the team and the execution capability (and often take more time to come to an investment decision). Regardless of the stage your start-up is at, treat all investors as a long-term relationship and not a short-term goal of getting their money. The time many investors take before committing is part of their analysis, as they observe how you behave during their due diligence period. A good experience for an earlier stage investor sets the stage for more successful future, so while preserving your founder's share from over-dilution, try to share the love and make sure each round of investors make good returns all the way to initial public offering.

And once you get money, don't forget that it is OPM (other people's money). Remember that you have to use it carefully as if it were your own and achieve a successful outcome for all.

In conclusion, taking businesses beyond the start-up stage is always challenging. However, your odds of making it are significantly improved when looking after the needs of investors, customers and your team are well aligned and prepared for the ups and downs.

# ROAD SHOW 2018 ASIA

Xero Roadshow Asia is the event for innovative accounting and bookkeeping leaders around the region to connect – come and discover the latest technological developments in accounting industry and stay at the forefront of your profession.

Join us at Xero Roadshow discover the new in accounting, what's new in Xero, and learn how we work with you in partnership to take your practice forward.

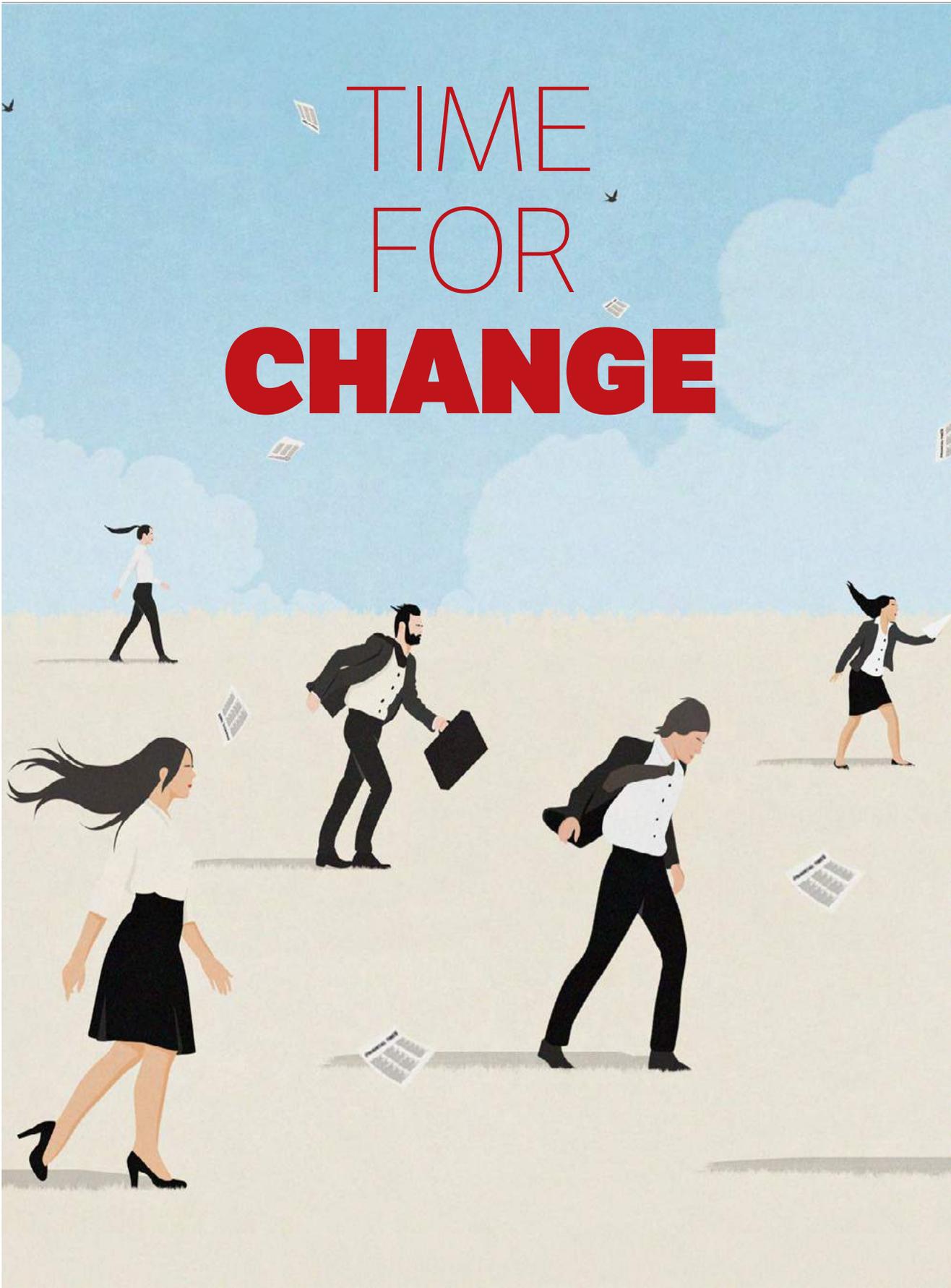
**20 November**  
**Sky100 Observation Deck Hong Kong**

Register now:  
[www.xero.com/hk/roadshow-asia](http://www.xero.com/hk/roadshow-asia)



**TICKETS  
ARE FREE**

# TIME FOR **CHANGE**



## The winds of change are blowing across the world of audit once again. *A Plus* looks at how the international development of standards and regulations is strengthening the profession

Illustrations by Roberto Cigna

It seems like not a month goes by without the audit profession hitting the headlines, whether its news of financial irregularities missed by auditors, or companies collapsing under the pressure of debts after receiving a good bill of health from their auditors.

Recent scandals such as the Gupta case in South Africa and a number of reported failures in the United Kingdom, including the collapse of facilities management and construction outsourcing company Carillion, threaten the integrity of the audit profession.

Although different failings were reported, they all highlighted the same key concerns – that the audit profession is not doing enough to deliver independent and robust examination of financial statements, to reassure investors that the management of a company they are invested in are acting as effective stewards of their capital.

At the same time, questions have been raised about the robustness of scrutiny from audit regulators, and sanctions applied to auditors, and whether the regulators are independent enough to effectively regulate the profession.

The need for change is highlighted by a recent report from the International Forum of Independent Audit Regulators (IFIAR), an international body of 52 independent audit regulators dedicated to improving global audit quality.

In its *2017 Survey of Inspection Findings* report, IFIAR found issues at 40 percent of the almost 1,000 audits of listed public interest entities inspected by its members. The IFIAR said that the “high rates of findings indicate [the] need for improvement.”

The most common issue identified by IFIAR was a failure to “assess the reasonableness of assumptions”, and the second biggest problem was a failure to “sufficiently test the accuracy and completeness of data or reports produced by management” – integral elements of an audit professional’s activities.

For the profession to remain relevant and retain its status as rational and reasoned arbiters of corporate financial well-being, it is vital that the audit profession changes and responds to these criticisms and issues raised. The global audit networks have agreed to reduce the percentage of listed public interest entity audit reports with identified issues.

### The standard setting ecosystem

This is not the first time the profession has been challenged. After a number of corporate collapses and failures including Enron in 2001, and WorldCom in 2002, the reputation of the profession was dented. As a result, regulation of the profession increased in many countries in an attempt to restore public and investor confidence in financial reporting.

These corporate scandals also gave birth to the International Federation of Accountants (IFAC) Reforms in 2003, implemented by the IFAC Council and supported by global regulators. The IFAC Reforms aimed to: strengthen international standard setting processes; advocate for national convergence with international standards; enhance the performance of the profession; build investor confidence in financial reporting; and ensure the profession is responsive to public interest.

The reforms also led to the development of two of the tiers of the three-tier model of standard setting – the Monitoring Group and Public Interest Oversight Board (PIOB) both overseeing the work of standard setting boards (see sidebar for the key roles of the bodies.)

### Crucial oversight

The Monitoring Group is a group of international public interest organizations. Its members are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, IFIAR, International Organization of Securities Commissions, and the World Bank.

## For the profession to remain relevant and retain its status as rational and reasoned arbiters of corporate financial well-being, it is vital that the audit profession changes and responds to these criticisms and issues raised.

The group was born out of the success in organizing together for the IFAC Reforms. Now its mission is to promote high-quality international auditing and assurance, ethical and education standards for accountants; monitor and assess the

#### The Monitoring Group

- Oversees PIOB funding
- Appoints PIOB members
- Monitors PIOB activities

#### The Public Interest Oversight Board

- Ensures due process of the standard setting boards
- Approves boards strategy plans
- Oversees the nominations process of board members

#### The four standard setting boards

- Setting standards
- Developing short- and medium-term strategy plans
- Organizing call for nominations of board members

# Regulation

## Audit standard setting



implementation and effectiveness of IFAC; appoint the members of the PIOB; monitor, consult and advise the PIOB; and convene regularly to discuss issues and developments related to international audit quality as well as to regulatory and market developments having an impact on auditing. The Monitoring Group meets at least twice a year and with the PIOB and IFAC at least once a year.

In recent years, the Monitoring Group has advocated for greater consideration of public interest in the creation of standards. Recently, it has criticized the high level of involvement by practitioners in the standard-developing process, and is one of the driving bodies behind change.

The standard setting boards are overseen by the PIOB, which comprises 10 members, nine of which are

nominated by the Monitoring Group and one by IFAC.

Founded as part of the IFAC Reforms, the PIOB is a vital component of the international standard-setting environment, offering independent oversight throughout the entire standard setting process, and helping to ensure that standards are fully responsive to stakeholder needs, accountable and transparent.



## **This globally-engaged and representative process aims to ensure that the boards develop high quality and relevant standards, which are useful for the profession, regulators and the investor community.**

By overseeing the establishment and adherence to high-quality professional standards, the PIOB seeks to further the international adoption and implementation of such standards and improve the comparability of financial statements across the globe.

Together, the Monitoring Group and PIOB provide the independent oversight necessary for developing standards which work for all participants in the global financial markets.

### **The boards**

There are four boards supported by IFAC, of which two set auditing and ethical standards. The International Auditing and Assurance Standards Board (IAASB) develops and issues auditing and assurance standards and pronouncements for global use, which have been adopted by over 120 jurisdictions. Meanwhile, the International Ethics Standards Board for Accountants (IESBA) sets ethical standards.

The IESBA sets standards including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable Handbook of the International Code of Ethics for Professional Accountants. The code has been adopted or is utilized to some extent in over 80 jurisdictions.

The other two boards, International Accounting Education Standards Board and International Public Sector Accounting Standards Board, set educational and public sector accounting standards, respectively.

The boards have 18 members, appointed by the IFAC Board on recommendation by the Nominating Committee, with the PIOB providing oversight. Boards comprise nine practitioners (partners or staff of audit firms), six non-practitioner (a broad category of accountancy-related professions) accountants, and at least three public members, who are expected to reflect the wider public interest. Members are allowed to serve a maximum of two consecutive three-year terms and must make annual declarations that they will act in the public interest.

Board positions are voluntary and non-remunerated (except for the positions of chair of the IAASB and IESBA), meaning that members need to be supported or financially independent, although, for self-nominated public members financial support is offered through a travel support programme.

The boards set their priorities through publicly consulted medium-term strategy plans and shorter-term work plans, which set the development agendas.

Each of the boards is supported by a Consultative Advisory Group (CAG) that offers input and contributes to the development of new standards. The CAGs are an integral and important part of the formal process of consultation.

### **Steps to standard setting**

The boards develop standards through a rigorous and publicly transparent due process. Prospective standards go through a number of revisions and consultations where bodies such as the Hong Kong Institute of CPAs, the profession, academics and other relevant stakeholders can all make their views known. This globally-engaged and representative process aims to ensure that the boards develop high quality and relevant standards, which are useful for the profession, regulators and the investor community.

Projects begin with the setting up of a task force responsible for developing the standards. The task force then begins information gathering which leads to the issuance of invitations to comment. Comments are sought from a wide variety of stakeholders including the related CAG of the board, national standard-setters like the Institute; accounting bodies; and accounting firms.



After comments are received, projects are revised, and debated by the boards, before the issuance of an exposure draft for further comments.

The boards then meet to consider comments received on the exposure draft, at a meeting which is open to the public. After the debate the exposure draft is revised as appropriate. If the changes made after exposure are viewed by the board to be substantive enough to require re-exposure, the revised document will be reissued for further comment.

The final step is the approval stage. Affirmative approval of the final international standards is made by the vote of at least two-thirds of the board members.

Once these standards and ethics codes have been developed, they are adopted by national regulators and pro-

fessional bodies, such as the Institute for Hong Kong.

Post-implementation reviews of the new standards are undertaken by the boards with the assistance of national standard setters and feedback collected from practitioners and users of financial statements. These reviews see whether the standards are effective and implementable, with revision a possibility if this is found not to be the case.

### Public interest concerns

While the boards and the profession maintain this system is independent and operating in the public interest, the Monitoring Group sees room for improvement. With this goal, the Monitoring Group released its latest consultation in late 2017, *Strengthening the governance and oversight*

*of the international audit-related standard-setting boards in the public interest*, focused on strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest.

The consultation focused on three key areas of concern, namely:

1. The adverse effect on stakeholder confidence in standards as a result of a perception of undue influence by the profession on the standard setting boards.
2. The risk that standards are not being developed fully in the public interest, and
3. The relevance and timeliness of standards.

In their consultation, the Monitoring Group also set out the guiding

principles for analysing these key concerns with the overarching principle of the public interest.

The proposals asked for responses to 27 questions covering a range of issues in relation to the three areas of concern and the Monitoring Group's recommendations. These included: the number and composition of standard setting boards, the remits of the standard setting boards and the Monitoring Group, the funding of the standard setting boards and the PIOB, and the staffing of the standard setting boards.

The consultation received almost 180 responses from across the globe, including from firms, national standard setters including the Institute, and professional bodies. Many of the respondents were critical of the assumptions and insinuations made in the paper regarding the current system, and questioned whether the current system is as flawed as indicated by the paper – which deems it necessary for root and branch overhaul, rather than amendment and piecemeal improvements. Comments were also made about the consultation not providing a clear explanation of the current process, including checks and balances, recognition of public interest and the roles of the Monitoring Group and PIOB.

Respondents, while in almost universal agreement that any changes must be in the public interest, still criticized the consultation for not including details of the proposal. A key response was that as the Public Interest Framework, is to be agreed by stakeholders, it should include multi-stakeholder composition of both the standards boards and their oversight bodies, and should provide the umbrella within

## **IFAC issued a paper on strengthening the oversight and operation of the IAASB and IESBA. This demonstrates the willingness of IFAC and the profession to strengthen the current system.**

which all significant proposals can be evaluated and agreed.

The Monitoring Group is assessing the feedback from respondents and developing a whitepaper for release later in the year.

As well as preparing the whitepaper, the Monitoring Group has undertaken a number of roundtable discussions across the world to collect further feedback on their proposals from a wide variety of stakeholders. In June, the Institute hosted two roundtables in Hong Kong with representatives from the Monitoring Group, IFAC and a number of stakeholders from Hong Kong and the wider Asia region including professional bodies, standard setters and regulators.

### **IFAC response**

Since the Monitoring Group published the responses to its consultation, and in advance of the whitepaper, IFAC issued a paper on strengthening the oversight and

operation of the IAASB and IESBA. This demonstrates the willingness of IFAC and the profession to strengthen the current system.

The IFAC paper, noted five areas where improvements should be made. These are:

1. Clarifying the distinct roles of oversight and standard development;
2. Enhancing multi-stakeholder representation on both the oversight body and the standards boards;
3. Improving the timeliness of standards development, while retaining quality and relevance;
4. Addressing the perception that the accountancy profession exerts undue influence on the development of standards; and
5. Increasing the funding sources in support of these proposed improvements.

The IFAC proposals have been produced as a timely response to those of the Monitoring Group, designed to improve the setting of standards and create an integrated, multi-stakeholder body. The proposals also include a three year timeframe, which will manage the disruptive risk to the development of standards.

IFAC are now undertaking targeted consultation on the key elements of the proposals, with the goal of agreement-in-principle with key stakeholders by February 2019, and implementation from June 2019.

Whatever the outcome of these two consultations, it is clear that the standards setting regime will change and there will likely be enhanced multi-stakeholder involvement in the development of standards.



# THE CENTRE OF IT ALL

In the last couple of decades, we have lived through rapid technological transformation, this has been even more apparent for Bonnie Chan, Chief Operating Officer for IBM Hong Kong, writes [Kate Whitehead](#)

Photography by Calvin Sit

**W**hen Bonnie Chan started out as a payroll accountant at IBM, spreadsheets were used to measure sales activity. Later, as an accounting manager and in a planning role, she used STAR, a system which, while still static, included information about business deal size and approvals. Now, with the sheer volume of raw data available, IBM's collaborative sales application called SalesConnect is even able to deduce the win rate.

"We can use it to see which deals fall into the winning quartile, which will be medium and those that have a low chance to win. That helps us to make business decisions and decide what resources to put in. It's moving to a very advanced level," says Chan, now IBM's Chief Operating Officer for Hong Kong, and a member of the Hong Kong Institute of CPAs.

Her professional success and transformation has mirrored that of IBM, one of the largest technology and consulting companies in the world, with more than 370,000 employees worldwide. "If I was in a static company and not promoting the transformation, I would stay the same as an accountant. But being at IBM, which embraces the transformation and reinvents itself on an everyday basis, employees engage with this company and you are pushed into a new world," says Chan.

She speaks quickly and with passion. It's obvious not simply that she enjoys her job, but that she is committed to IBM's drive for innovation.

Chan went to secondary school in Australia and stayed on for further studies, earning a bachelor of commerce with a major in accounting and a minor in legal studies from the University of

New South Wales. She did her CPA exams immediately after graduation, and is now a fellow member of the Institute. After a couple of years working as an auditor in Kwan Wong Tan & Fong and BDO, she joined IBM Hong Kong as an accountant and studied a distance learning master of business administration from the University of Southern Queensland at the same time.

Her move from a payroll accountant to an accounting manager coincided with IBM's initiation of the concept of "centre of excellence," (COE) which saw a streamlining of the accounting processes. "Having a COE meant we needed to standardize all the information. It was quite challenging, but lots of fun – we had to deal with all resources and think about timelines and processes," says Chan.

Prior to taking up the Chief Operating Officer role in 2017, Bonnie Chan had been chief financial officer for IBM Hong Kong since 2013.



# Success ingredient

Bonnie Chan



## On both sides

What catapulted Chan's career was gaining a strong understanding of business. The first opportunity for this came when she moved from being an accounting manager to a planning role for IBM's Greater China hardware systems division.

"In accounting, it is more data processing and giving advice on the overall financial policies. But when you are actually managing the planning process, you are using the skills that you obtained in the accounting field and then you use that to progress in your commercial world," says Chan. "Like helping the business drive for success by overseeing the cost of sale, how to allocate a discount and then what kind of things help you to close the deal in a win-win situation."

As part of this role, she sometimes visited customers to better understand their needs and plan long term. From the Greater China group, she moved to overseeing Asia Pacific as a business partner manager, and enjoyed getting a wider view of how business practices differ in different countries and cultures. "I was able to get more experience to streamline the advantages that they have and I can come back to the Greater China group to contribute the things I've learned," says Chan.

During this period, one of the key lessons she learned was the importance of good collaboration. Having spent time understanding the demands placed on the sales team and better understanding their mindset, she was well-positioned to serve as a bridge between finance

and sale. "The finance side always thinks of rules and regulations and how to drive high gross profit or low cost – you live in a perfect world, but you detach it from reality. We were able to bridge the gap between the business needs and back-office planning targets and looked at the business as a portfolio instead of a single deal," says Chan.

## “Continuous learning helps to open up the mind of the employees and then they are more engaged with the business.”

Such collaborations, she points out, are the high points of her career. A couple of years ago, she worked on a big deal for a visual analytics company over the Mid-Autumn Festival. It was a tricky deal, but because both the finance and business sides were determined to find a solution that would work for all, they succeeded. "Having a strong finance background, but also understanding what sales is thinking, helps us to close more winning deals," she says.

## New thinking

In 2013, Chan became the chief financial officer of IBM China/Hong Kong Limited, responsible for ensuring compliance with the United States and Hong Kong regulatory requirements and internal guidelines by implementing

appropriate controls. Her focus was also on improving agility and streamlining processes. She already had some experience in this area, but the challenge now was even greater.

Keeping staff up to speed on IBM's strategies has taken on an even greater significance in her latest role as COO, which she assumed in November last year. The push is on to transform IBM into a more cloud-based, cognitive company.

"Before, when we had a project, we needed to spend a long time planning before we could start. Our approach this time was to have a design thinking workshop," says Chan, adding that design thinking is the process continuous conversations with clients and users to understand their needs.

"We treat everything like a prototype, an unfinished product that will always be iterated on and reinvented. Both leadership and working team are in the design thinking workshop. This will help us to face the real issues and keep on improving.

"We shared ideas and had continuous meetings to reassess and redesign – it helped us to streamline and have a faster approach. And this is the way we show employees how we are changing," says Chan.

A key part of the company's transformation is to ensure that employees understand the new technology. With this in mind, Chan and her team designed Think Academy, an app developed by IBM for employees to learn about topics ranging from the cloud and security to AI platforms as well as



This month, IBM agreed to spend US\$34 billion on Red Hat, an American multinational software company. It is the largest software deal ever, and by far IBM's biggest deal in its 107-year history.

## Success ingredient

Bonnie Chan

success stories that they can share. “It was one of my drives. I think continuous learning helps to open up the mind of the employees and then they are more engaged with the business,” says Chan.

### Hands on AI

A hot topic not only among employees, but the wider world is artificial intelligence (AI). Chan notes that IBM is focused on providing high value to clients leveraging data and emerging technologies such as AI, blockchain and quantum computing. “We leverage cloud as a platform to deliver AI, blockchain, Internet-of-Things (IoT) and industry solutions such as Watson Health, Watson Financial Services and Watson IoT. Chan notes that the landscape has completely changed from when she started out and all accountants could do was try to streamline data for 10 years and try to predict the market. The explosion of big data has opened up many possibilities and Chan says IBM’s focus now is on collecting raw data – including “unstructured data” such as views expressed on social media platforms – from a multitude of channels and using AI to interpret it.

AI can be applied across industries. Chan gives the example of the health industry. Hundreds of medical reports are published in multiple journals around the world weekly, yet dedicated doctors only have time to read one or two reports a day. IBM Watson is a system that is able to read 30,000 words a second meaning that it can keep up-to-date with all medical reports, and includes a search engine that allows for easy access.

**“The AI world has shortened the time needed for learning because they have synchronized all the information in the data world. You have the information on hand to make a decision.”**

“If someone has symptoms of breast cancer, you can put in the terms and Watson is able to derive the three best treatments. And if person has a heart problem, it can give recommendations on which medicine to take or avoid. The AI world has shortened the time needed for learning because they have synchronized all the information in the data world. You have the information on hand to make a decision,” explains Chan.

Her current big project is an IBM Innovation Centre for Hong Kong, which is expected to open before the end of the year and will allow companies to see, in a hands-on way, how AI can support their business. “A lot of people know they need to utilize AI, we see a lot of people participating in AI workshops and forums, but they don’t know how to build that bridge to help them. The Innovation Centre will serve this purpose,” says Chan.





Chan works with the leadership team to transform the company's operations in support of IBM strategy in Greater China and Hong Kong, and strengthens sales execution and integration to sustain profitable growth for Hong Kong.

Deeply entrenched in the technological future, it's no surprise that Chan's advice to young accountants is to embrace technology. That's not to say that the fundamentals of accounting are any less important – the accounting guidelines and rules are essential – but she wants accountants to broaden their scope. "For new

accountants coming in, the world is entirely different. I think our role is not that academic. As an accountant we should have the responsibility to help companies to grow their business. I think we should advance ourselves to see what is new outside," she says.

Succeeding in this new technological world also requires

good interpersonal skills, so that accountants can better collaborate with their clients. "Printing out sheets of financial data is easy," says Chan. "It's this in-depth data that you need to be able to explain to your clients, to be able to look at the figures and tell your clients what it can bring to their business."



(From left)  
Suzanne Liu,  
Aqua Tsang,  
Ronald Wong  
and Albert Au

# Strength in numbers



Of the many sports events in Hong Kong, few are as grueling as the Oxfam Trailwalker. Teams navigate, climb and run together along a 100-kilometre-long trail, balancing food and liquid intake and waning energy levels, all while exposed to the elements. Institute members bring [Jeremy Chan](#) into the action, and explain what makes the race so difficult – yet so addictive

Photography by Anthony Tung

**W**ith his hand firmly gripping a hot cup of coffee, Greg Lo relives the frightening moment he experienced during his first Trailwalker. “I suddenly turned pale, had the cold sweats and started shaking,” says the retiree. “Then three of my teammates carried me upside down so blood would reach my head,” he recalls. Despite facing heat exhaustion, he was unwilling to give up on the race he had trained so hard for.

With the help of his teammates, he got up, and trudged onwards to the next checkpoint. “I remember asking for Coca-Cola, and our support team luckily managed to get a can from the medical team,” he says. “That sugar was the best thing because that got me up and running for the next 70 kilometres.”

The Oxfam Trailwalker, which this year takes place on 16-18 November, is one of the city’s largest fundraising sports events.

**“That sugar was the best thing because that got me up and running for the next 70 kilometres.”**

Nearly 100,000 participants have raised over HK\$530 million to support Oxfam’s poverty alleviation and emergency relief projects in Africa and Asia since 1986. It takes place every November along Hong Kong’s longest hiking trail, the MacLehose Trail, which crosses much of the New Territories, starting from Pak Tam Chung, Sai Kung in the east to Tuen Mun in the west of the New Territories. With only nine checkpoints along the way, participants battle uphill terrain, changing weather, and extreme lethargy to complete the race within a 48-hour time limit.

**Never giving up**

The arduous race commands a high level of stamina from all competitors, and many begin training half a year in advance, practicing on different sections of the MacLehose Trail to build endurance. Pearl Chau, Assistant Finance Manager at British American Tobacco Group, and Team Captain of the Institute Trailwalker team EQUUS QUAGGA BURCHELLII, says one section of the trail, known as the Double Au, is particularly horrible. Spanning 57 km, the route is so demanding that participants have to train before attempting it. “It has a total elevation of 3,200 metres, so it’s very tough on your feet and calves,” Chau says. “If you complete that in eight hours, you would be able to finish the whole trail in about 18 hours,” she adds.

Chau has taken part in the Trailwalker each year since 2002, and looks forward to improving on her finish time every subsequent



Since 1986, more than 98,000 participants of Oxfam Trailwalker have raised over HK\$536 million to support Oxfam's various poverty alleviation and emergency relief projects in Africa and Asia, including Hong Kong and Mainland China.

year. Determined to bring home the Oxfam Trailwalker medal, commemorating the race's 30th year anniversary (The race was opened to the public in 1986, after five years for service personnel only), she joined the Institute's team in 2011 along with Lo, who she met on the CPA Trailwalker chat group. Lo, who was reluctant to join in the first place, put his name down as a fill-in runner to boost the team's chances of being selected for the event. After securing positions in the race, and knowing he could not withdraw from it, he gave the race a go.

Armed with items such as hiking poles, a headlamp, and supplements such as energy bars, gels and a bottle of water, Lo took part in his first Trailwalker in 2011. Chau says: "I remember I had to keep Greg going. I kept on telling him to not give up – we all wanted to secure that medal."

"It was pouring when we were at checkpoint four, Gilwell campsite," recalls Lo. "It was night time too, so we couldn't even see the trail! It had been raining heavily for a week before the race, so the trail was very muddy and slippery. It felt like every time we took a step forwards, we slipped two steps back." Battling road conditions, blisters on their feet and sleepiness, they made it to the finish line. While they didn't win the medal, the race won Lo's heart, and he has gone on to participating in more Trailwalkers.

**"The Oxfam Trailwalker is a platform that will help you become stronger, and become part of your growth and development. I suggest CPAs to try it."**

The feeling of crossing the finish line is something Chau never tires of. "Every race is a battle, and I feel happy to win," she says. "The Oxfam Trailwalker is a platform that will help you become stronger, and become part of your growth and development. I suggest CPAs to try it."

### Fueled for the finish line

On the same team is Gordon Liu. Currently retired, he worked at a non-government organization from 2012 to 2015. "I would get off work at 6 or 6:30 p.m., so that gave me plenty of time to train."

An avid runner himself, Liu heard of the event through the Institute's Athletics Interest Group in 2008, but stuck to running marathons until attempting his first Trailwalker in 2012. He has since completed five trail runs,

and the experience has taught him the importance of food on a trail walk. "At the beginning of every November, we have a logistics meeting and everybody writes down what they want to eat and drink," he explains. "We have people standing at five support points along the trail, and these people supply runners with their food of choice. Some runners want a burger, or a chicken drumstick, and some want drinks such as Gatorade or orange juice."

Having the runners' favourite foods scattered along the trail ensures competitors don't consume too much at one support point, and also gives them something to look forward to when things get tough. "They can think 'if I walk another 5 km, I can get sushi, and if I walk another 10 km after that, I can get a chicken drumstick,'" says Liu.

His team also brings snacks and supplements on the run. "I would ask my team to eat along the way, bit by bit." Runners usually eat at least two hours before the event, and control their intake of food during the run. Too much food can result in indigestion and severely affect performance. "Some of my teammates have vomited and couldn't even keep water down," he says. "Once the vomiting starts, it takes several hours to recover."

Liu knows it can be tempting to stay ahead of the race, and advises participants to perform what they practiced. "If you're running at



**“If you’re running at 4 km an hour, don’t overdo it – stick to it. Try not to follow the faster runners.”**



# Work and life

Trailwalker



Greg Lo (second from left) and Pearl Chau (third from left)



Gordon Liu (second from right)



Gordon Liu (second from right)

Hong Kong's MacLehose trail



4 km an hour, don't overdo it – stick to it. Try not to follow the faster runners," he urges. "You might really hurt yourself." Training hard each Saturday in preparation for the event next month, he wants an even bigger challenge. "This year, I am walking without hiking poles. I want to see how far I can go."

### Every minute matters

For team Sara, time is of the essence. Since 2015, teammates Suzanne Liu, Aqua Tsang, Ronald Wong and Albert Au have been committed to outdoing each year's finish time. Au, a Company Secretary of a listed company is this year's team captain, and in charge of organizing training sessions, and setting time goals. "We want to beat last year's time of 17 hours and 28 minutes."

With the team busy training for other endurance events throughout the year, they make each workout count. "To build team spirit, it is important to train together, so when we are all free, we gather on weekends to do 50 km walks on the hillside."

Tsang, Financial Analyst at a listed company, was team captain at the beginning. She learned of the event through her husband, a trail walker. The memories of previous

**“To build team spirit, it is important to train together, so when we are all free, we gather on weekends to do 50 km walks on the hillside.”**

years' events are still fresh in her mind. "It's always toughest after 70 km," Tsang says. "I feel like I'm about to faint and have to run slower and slower – I keep up by relying on my hiking poles more, and I tell my teammates to wait for me."

She says her team's secret is effective time management. "If you want to finish the race in under 16 hours, you need to jog when the trail is flat or when you are going downhill. Also, don't spend too much time at a checkpoint – just grab your food, drinks and leave!"

Wong, Project Manager at a listed company, and Suzanne Liu, Financial Analyst at a sourcing company, both joined in 2016. Wong explains why setting a time goal is crucial. "We have schedules for each checkpoint," he explains. "If we arrive at a checkpoint too

early because we are rushing, we know we will suffer later, because it means we have used up too much energy. But if we arrive at one five minutes too late, then that affects the arrival time at all future checkpoints." He adds that this strategy also increases their chances of finishing each race slightly quicker.

The team has experienced their fair share of ups and downs. "The race is full of surprises," he says. "In 2015, I was stung by a bee and couldn't feel my leg for half an hour. I had to rest at the next checkpoint but luckily it wasn't so serious." Liu also recalls how half of her shoe's soles came off the following year. "I used my arm warmer to tie the sole back onto my shoe," she laughs. Au remembers: "Luckily, my friend had a spare pair of shoes at the next checkpoint, but they were men's trailrunning shoes and too big for her. She still wore them and completed the next 65 km!"

Tsang, who is running her seventh Trailwalker next month, says she will never forget completing her first race. "After finishing the Oxfam Trailwalker for the first time, I cried. It almost felt like graduation day again," she laughs. "I wanted to say 'mom, I did it!'"



# Using tax legislation to promote research and development activities in Hong Kong

**Gwenda Ho** and **Ricky Chow** examine the enhanced research and development deduction regime in Hong Kong and make other related observations

The Inland Revenue (Amendment) (No. 3) Bill 2018 (the Bill), passed by the Legislative Council on 24 October, implements measures proposed by the Chief Executive in her 2017 Policy Address to provide for enhanced tax deductions for qualifying expenditures on qualifying research and development (R&D) activities to encourage more private sector R&D activities in Hong Kong. During its passage through the Bills Committee of the Legislative Council, only one major Committee Stage Amendment was proposed by the Secretary for Innovation and Technology, to allow a grace period for taxpayers to enjoy the tax deduction in respect of payments made to a local institution or local research institution which subsequently qualifies as a designated local research institution within six months after the date of payment. The new regime will take retrospective effect and apply to R&D expenditures incurred on or after 1 April 2018. In this article, we will discuss the key elements of the bill, practical issues regarding the regime, and some additional measures that may be considered by the government in order to develop Hong Kong into a true R&D hub and increase the city's competitiveness.

## Two types of R&D expenditures as defined in the bill

The deduction for R&D expenditures is currently governed by section 16B of the Inland Revenue Ordinance (IRO). The bill proposes to revamp the current R&D deduction regime by introducing a new Schedule 45 to the IRO that sets out two

deduction criteria under section 16B: Type A expenditure which qualifies for 100 percent normal tax deduction (as currently provided); and Type B expenditure which qualifies for 300 percent deduction for the first HK\$2 million and 200 percent for the remaining amount, without a cap.

## Meaning of R&D activity and qualifying R&D activity

Pursuant to Part 1 of Schedule 45, the definition of an R&D activity is unchanged from the existing definition in section 16B(4)(a) of the IRO, namely:

- (a) An activity in the fields of natural or applied science to extend knowledge;
- (b) A systematic, investigative or experimental activity carried on for the purposes of any feasibility study or in relation to any market, business or management research;
- (c) An original and planned investigation carried on with the prospect of gaining new scientific or technical knowledge and understanding; or
- (d) The application of research findings or other knowledge to a plan or design for producing or introducing new or substantially improved materials, devices, products, processes, systems or services before they are commercially produced or used.

Qualifying R&D activities only cover activities as described under (a), (c) or (d) above and which are wholly undertaken and carried on in Hong Kong. Additionally, a qualifying R&D activity does not include the following:

- Any efficiency survey, feasibility study,

management study, market research or sales promotion;

- The application of any publicly available research findings or other knowledge to a plan or design, with an anticipated outcome and without any scientific or technological uncertainty;
- An activity that does not seek to directly contribute to achieving an advance in science or technology by resolving scientific or technological uncertainty; or
- Any work to develop the non-scientific or non-technological aspect of a new or substantially improved material, device, product, process, system or service.

## Definitions of Type A and Type B expenditures

Type B expenditures eligible for enhanced deductions refer to the following expenditures incurred by a taxpayer in relation to his trade, profession or business:

1. Payments made to designated local research institutions for conducting out-sourced qualifying R&D activities; or
2. Expenditures such as salaries, wages and contributions to retirement or provident fund schemes paid in respect of employees (excluding directors) directly and actively engaged in qualifying R&D activities, and consumable items used directly in qualifying R&D activities.

Type A expenditure is defined as R&D expenditure on an R&D activity or a qualifying R&D activity other than Type B expenditure. Capital expenditure on plant

or machinery used in an R&D activity, for instance, falls within Type A expenditure eligible for a 100 percent tax deduction.

**Designated local research institutions**

Under the current section 16B, R&D payments made to “approved research institutes” qualify for 100 percent deduction. At the moment, there are only five approved research institutes, all of which are public institutions. Under the new regime, in order to boost R&D activities in the private sector,

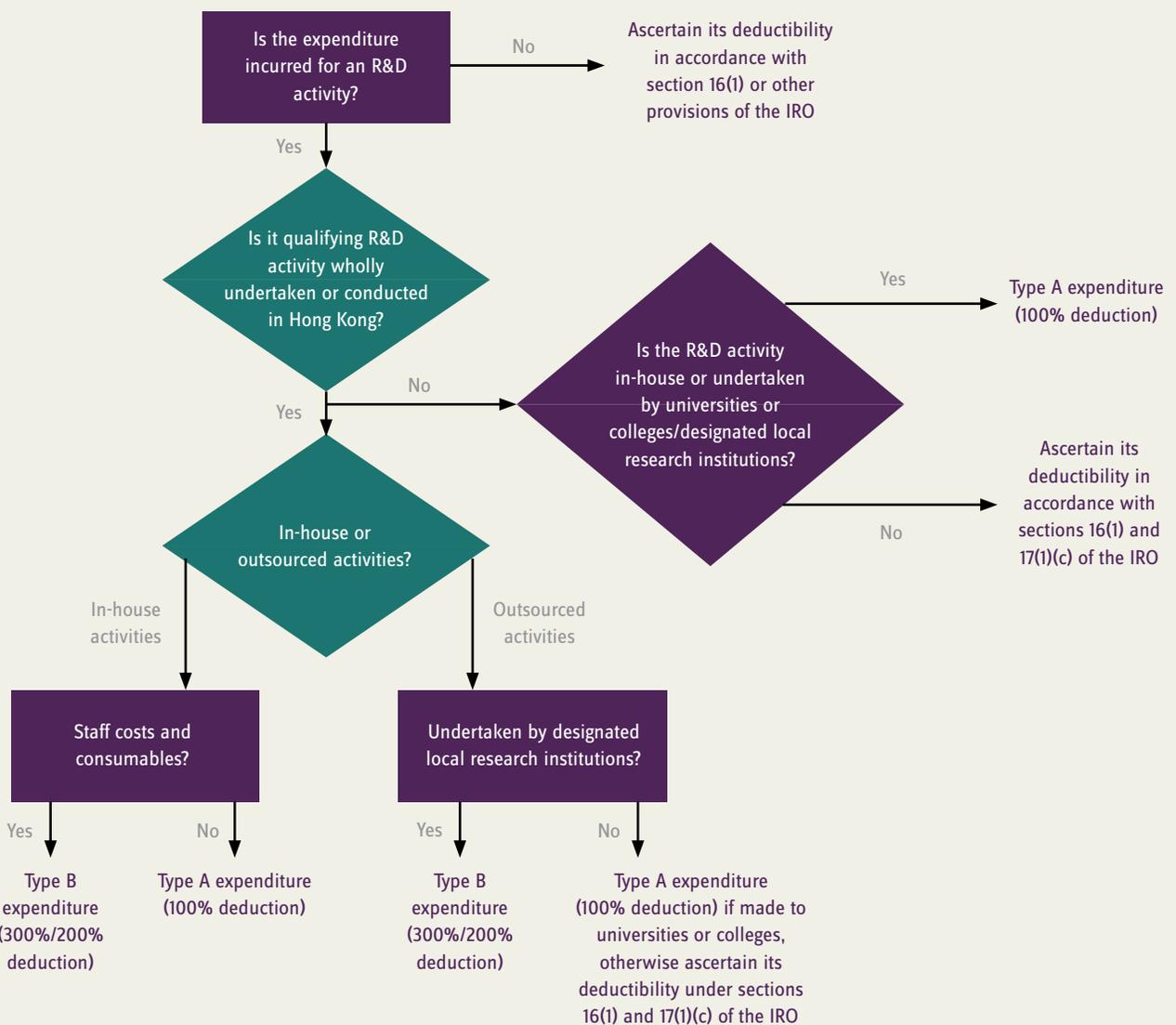
it is expected that more institutions, including private ones, will be granted the designated local research institution status.

Under the bill, the Commissioner of Innovation and Technology (CIT) is empowered to approve an entity as a designated local research institution. In determining an application, the CIT will consider factors such as whether or not the institution possesses expertise in providing R&D services in one or more specified fields of science or technology, sufficient qualified and experienced R&D employees,

equipment and facilities, sound project management experience, and appropriate track records. Details of the eligibility criteria are expected to be announced soon.

**Classification of R&D expenditures**

The decision tree below illustrates the classification of R&D expenditures (excluding capital expenditures on land or buildings and acquiring rights generated from an R&D activity) incurred by a taxpayer and the relevant tax treatments under the new regime.





### Deduction safeguard measures proposed in the bill

Part 2 of Schedule 45 includes certain safeguards to prevent the abuse of the R&D deduction regime by a taxpayer. No deduction is available under section 16B in the following circumstances:

- Any rights generated from the R&D activities are not, or will not be, fully vested in the taxpayer;
- The R&D activities are undertaken by the taxpayer for another person; the expenditure is, or will be, met directly or indirectly by grants or subsidies by a government, a public or local authority or a person other than the taxpayer, whether in Hong Kong or elsewhere; or
- The expenditure is incurred under an arrangement the main purpose, or one of the main purposes, of which is to obtain a deduction or a greater deduction to which the taxpayer would not otherwise be entitled under section 16B. Co-ownership of intellectual property (IP), which is commonly the case under a cost sharing arrangement, is acceptable as being fully vested in the taxpayer, as "rights" is defined to include a share or an interest in rights.

### Taxability of the proceeds of sales of rights/plant or machinery

Part 3 of Schedule 45 stipulates that proceeds from the sale of any rights generated from the relevant R&D activities, or any proceeds from the sale of plant or machinery or insurance moneys or other compensation received where the plant or machinery is destroyed, capped at

the amount of the total deductions allowed under section 16B, will be considered as taxable receipts.

### Supporting documentation and the involvement of Innovation and Technology Commission in the R&D deduction claims

In order to support the R&D deduction claim, taxpayers must demonstrate that the activities undertaken will lead to an advance in science or technology by resolving uncertainty in the fields of the trade, profession or business engaged by taxpayers, with consideration of the state of knowledge and technology at project commencement.

Taxpayers should be prepared to provide documentary records of the R&D activities conducted to substantiate their deduction claims.

Before project commencement, project plans and budget papers which clearly define the objectives and the exact scientific or technological uncertainties to be overcome should be in place.

During the project, taxpayers should maintain laboratory notes, internal progress reports and other relevant documents which discuss any major challenges encountered and how the results, if any, are being crystallized and protected. Nevertheless, qualifying R&D activities which ultimately fail to achieve the intended results should not prevent the underlying expenditures from enjoying the enhanced R&D deduction.

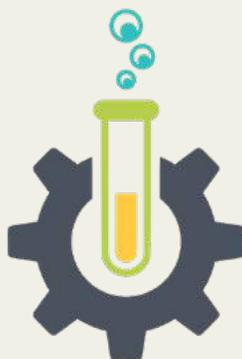
More practical guidance and examples on the types of activities accepted as

qualifying R&D activities and details of documentary evidence required supporting R&D deduction claims are expected to be provided in the forthcoming Departmental Interpretation and Practice Notes to be issued by the Inland Revenue Department (IRD). The IRD also welcomes advance ruling applications by taxpayers.

It is envisaged that the IRD will adopt a risk-based approach to carry out sample examination of R&D deduction claims made by taxpayers. In view of the potentially extensive documentation requirements, the organization's finance team should ensure effective communication with the R&D personnel such that the relevant supporting documentation is properly maintained and can be retrieved on a timely basis. In particular, in determining whether expenditures incurred for R&D projects qualify for normal or enhanced R&D deduction, accounting classifications of the expenditures may not be conclusive, and input from the R&D team members may be necessary. A close and regular dialogue between the R&D and finance teams throughout the entire process is of utmost importance.

Under the bill, the Commissioner of Inland Revenue (CIR) is empowered to seek advice from the CIT when processing section 16B claims or advance ruling applications. The CIR may disclose to the CIT any necessary details for the consultation.

While it is understandable that expert advice from the CIT may be necessary in assessing claims or resolve disputes,



the business sector would hope that the additional consultation would not lead to significant delay in processing claims and approving the designated local research institution status. The IRD and Innovation and Technology Commission should make concerted efforts to provide an administrative friendly environment for taxpayers to enjoy the new incentive in order to foster the growth of R&D activities in Hong Kong.

### New deeming provision on trading receipts

The bill also introduces a new deeming provision under section 15 of the IRO to include, as taxable trading receipts, sums received or accrued (i) for the use, or the right to the use, outside Hong Kong of any IP or know-how generated from any R&D activities for which deductions are allowable under section 16B of the IRO; or (ii) for imparting or undertaking to impart knowledge directly or indirectly connected with the use outside Hong Kong of any such property or know-how.

The introduction of deeming provisions, especially along with tax incentive regimes, appears to have become the norm in Hong Kong in recent years. While the inclusion of measures to avoid abuse is understandable, a fair balance needs to be struck as such deeming provisions are, arguably unnecessarily, undermining the fundamental territorial basis of taxation of Hong Kong. Moreover, the broadening of the tax base through these deeming provisions further reduces the attractiveness of Hong Kong as a place to hold and exploit IP.

### Further measures to encourage private sector R&D activities in Hong Kong

Whilst the introduction of the enhanced R&D deduction regime is a good move, the deductions are still relatively restricted. For instance, R&D payments made to non-Hong Kong persons or Hong Kong persons that are not designated local research institutions (other than colleges or universities) are non-deductible under section 16B. In comparison, Mainland China has recently relaxed its R&D super-deduction regime to cover R&D payments made to overseas parties as long as the relevant IP rights are owned in Mainland China. Given the current lack of sufficient R&D talents in Hong Kong, the government may consider further enhancing the regime to relax the rules on expenditures incurred overseas, while Hong Kong develops local expertise. The government may also consider expanding the scope of in-house R&D expenditure eligible for the enhanced deduction to cover other R&D related expenditures, such as overhead costs, costs of independent contractors and capital expenditure on plant or machinery. To further improve the overall R&D atmosphere in Hong Kong, the government may consider offering incentives to qualified R&D talents who move to Hong Kong.

In order to further build up a sustainable ecosystem that attracts capital for R&D activities in Hong Kong as well as encouraging the owning of IP rights in Hong Kong, the government may wish to revisit the taxation rules concerning IP. The current restrictive

deduction rules on IP acquisition costs coupled with stringent taxing rules and practice on IP related income and lack of unilateral double tax relief for foreign tax paid in a non-treaty jurisdiction may give rise to an exceptionally high effective tax rate for an IP-owning company in Hong Kong in certain circumstances. Further effort is needed for Hong Kong to gain its position as one of the competitive R&D and IP hubs in the Asia Pacific region.

In her maiden Policy Address, the Chief Executive set the goal of doubling R&D expenditure to 1.5 percent of the GDP in Hong Kong within the current government's five-year tenure. While the proposed enhanced R&D deduction is in the right direction to encourage the private sector to invest more in R&D, the government should keep up the momentum in formulating and rolling out more tax and non-tax measures in promoting R&D spending in Hong Kong. The bill is only the first chapter of this journey.



**Gwenda Ho** is Tax Partner and **Ricky Chow** is Tax Senior Manager of PwC Hong Kong.



Hong Kong Institute of CPAs



**“Like” and recommend  
us on Facebook**

[www.facebook.com/hkicpa.official](http://www.facebook.com/hkicpa.official)



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



# Lessee accounting: Farewell to Hong Kong Interpretation 4

On 1 January 2019, the Institute will withdraw its home-grown interpretation, HK-Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* (HK-Int 4). The withdrawal coincides with the effective date of Hong Kong Financial Reporting Standard 16 *Leases* (HKFRS 16).

## Why was HK-Int 4 developed?

Hong Kong Accounting Standard (HKAS) 17 *Leases* requires land and buildings held under leases be amortized over the lease term, unless it is an investment property carried at fair value. The lease term includes any option to continue to lease the asset, with or without further payment, when, at the inception of the lease, it is reasonably certain that the lessee will exercise the option (HKAS 17.4).

When Hong Kong fully converged its standards with International Financial Reporting Standards in 2005, HK-Int 4 was developed to explain how to apply the lease term concept to land leases in Hong Kong, in the context of the specific land policy of the government of the Hong Kong Special Administrative Region. It was also released to address concerns regarding potential diversity in practice when accounting for land lease terms in Hong Kong.

On handover in July 1997, the land policy statement announced by the new government of the Special Administrative Region stated that non-renewable leases, may, upon expiry, be extended for a term of 50 years without payment of an additional premium at the sole discretion of the government, with the exception of short term tenancies and leases for special purposes.

A commonly asked question was whether, under HKAS 17, the government's general expression of intent was sufficient for a lessee to include an extended period, beyond the non-cancellable lease period, in their lease term calculation.

At the time, the Institute's Financial Reporting Standards Committee (FRSC), as the accounting standard setter for Hong Kong, considered that:

- HKAS 17 is clear that any future lease extension that is not reasonably certain to

be exercised at inception of the lease shall not be taken into account when calculating the lease term; and

- By Hong Kong law, the decision to extend a Hong Kong land lease is at the sole discretion of the government, not the discretion of the lessee, despite the government's expression of intent. In other words, a lessee does not have an option to continue to lease an asset at the inception of the lease.

Accordingly, the FRSC concluded that HKAS 17 requires entities to determine the land lease term by reference to the legal form and status of the lease. Specifically,

- Lessees shall not assume that the lease term of a Hong Kong land lease will be extended for a further 50 years, or any other period;
- In respect of leases in the New Territories area that will expire shortly before 30 June 2047, lessees shall assume that the legal limit in these leases to be the maximum lease term; and
- For leases that extend beyond 30 June 2047 (e.g. those with an original lease term of 999 years), lessees shall assume that any legal rights under the leases that extend the lease term to beyond 30 June 2047 will be protected for the full duration of the lease in the absence of any indication to the contrary.

HK-Int 4 did not introduce new requirements or guidance on the topic, but was issued to capture the discussion above and reinforce the application of the requirements in HKAS 17 – while preventing diverse or unacceptable practices.

## Why withdraw HK-Int 4?

HKFRS 16 will supersede HKAS 17 on 1 January 2019.

Similar to HKAS 17, HKFRS 16 requires a lessee to include, in the lease term, optional periods for which the lessee is reasonably certain to exercise. Furthermore, when determining the length of a Hong Kong land lease term, the FRSC noted that HKFRS 16 emphasizes the importance of assessing the enforceability of lease extension

options (paragraphs B34 and BC127 of HKFRS 16). As the government retains the sole discretion as to whether to renew the Hong Kong land leases upon expiry, a lessee does not have an enforceable right to extend the lease without the agreement of the government. Similar to today's practice under HKAS 17, a lessee will determine the term of a Hong Kong land lease based on the legal form and status of the lease under HKFRS 16.

The FRSC also noted that there is now a common understanding of the requirements to determine the term of a Hong Kong land lease under HKAS 17.

On this basis, in May 2016, the FRSC concluded that the requirements to determine the term of a Hong Kong land lease are unchanged from HKAS 17, and therefore decided to withdraw HK-Int 4.

## Other considerations

Entities are reminded that determining the lease term requires judgment and is a critical accounting estimate management makes. Entities are recommended to consider the additional guidance included in HKFRS 16:

- Lessor termination option (HKFRS 16.B35);
- Assessment of lessee extension and termination options (HKFRS 16.B37 to B40);
- Reassessment of extension and termination options (HKFRS 16.20 and B41); and
- Revision of lease term (HKFRS 16.21).

Finally, preparers should ensure that information which helps users of financial statements understand the judgments that management makes about the future and the sources of estimation uncertainty is disclosed in accordance with paragraph 125 of HKAS 1 *Presentation of Financial Statements*.



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

# Examining the public consultation papers on implementation rules for new Mainland Individual Income Tax laws

Daniel Hui and Kate Lai examine the key changes behind implementation rules

Almost four months since the release of the new Individual Income Tax (IIT) laws (the first draft was published on 29 June for public consultation and the updated draft passed into law on 31 August), the State Administration of Taxation (SAT) of the People's Republic of China (PRC) finally issued the long-awaited implementation rules for the new PRC IIT laws on 20 October. The SAT has also issued a paper on interim measures for additional itemized deductions under the new laws. Both the implementation rules and the interim measures paper (the papers) are open for public consultation until 4 November.

The papers addressed some of the concerns under the new IIT laws. This article looks at some key themes that generated a lot of public discussions, namely, changes to tax residence rule, new itemized deductions, and extension of anti-avoidance measures to individuals.

## Highlights of the implementation rules

The rationale behind the implementation rules is to facilitate the smooth implementation of the new laws, streamline the tax administration and management process, and increase enforcement while also making the system easy for taxpayers to comply with. The implementation rules also provide clarification of the anti-avoidance rules and measures to strengthen

the exchange of information for tax enforcement purposes.

## Residence

For those who are not domiciled in Mainland China, the new tax residence rules define individuals as tax residents if they are present in Mainland China for 183 days or more in a calendar year. A tax resident is subject to PRC tax on worldwide income. The current implementation rules (valid until 31 December 2018) see taxpayer only become subject to tax on worldwide income after they have been resident in Mainland China for five full years. This five-year period can be broken, and the clock restarted, by taking a single trip of more than 30 days or multiple trips that, in total, amount to more than 90 days outside of Mainland China (known as "tax break"). Under the new implementation rules, while the five-year rule is retained, a tax break is completed by taking a single trip of more than 30 consecutive days outside Mainland China. For individuals who have become tax residents for five consecutive years, from the sixth year onwards, they are subject to worldwide taxation unless they are considered non-residents for that year (i.e., spending less than 183 days in Mainland China for that year). See Figure 1 for illustration.

The new implementation rules mean that for individuals who have been relying

on a cumulative 90-day tax break to avoid worldwide taxation need to plan ahead to ensure that they can arrange a tax break of more than 30 days during the relevant period once the new IIT laws become effective. If an individual becomes a resident for five consecutive years without taking a tax break, in order to escape worldwide taxation the individual will need to be considered a non-PRC resident or able to demonstrate that they are dual resident (e.g. Hong Kong and Mainland) under tax treaty arrangement and tie-break to the other jurisdiction (e.g. Hong Kong).

For example, under the tax treaty between Hong Kong and Mainland China, where an individual is considered a resident of both sides, his status is determined by looking at factors in the order of (1) where he has a permanent home available to him; (2) where his personal and economic relations are closer; (3) where he has a habitual abode. If his residence status cannot be determined by the above, a mutual agreement process between the tax authorities of both jurisdictions can be initiated.

However, for individuals who habitually live with their family in Mainland China and have established sufficient economic ties there, they may be regarded as being domiciled there and subject to worldwide taxation regardless of whether they have taken a tax break, as this is only applicable

to non-PRC domicile individuals.

For employers, the consequences of their employees becoming tax residents could be far-reaching. In particular, where companies have implemented tax subsidy arrangements (e.g., tax equalization), it is important to review the existing policy, consider how the policy is administered, and address any gaps as soon as possible.

**Itemized deductions**

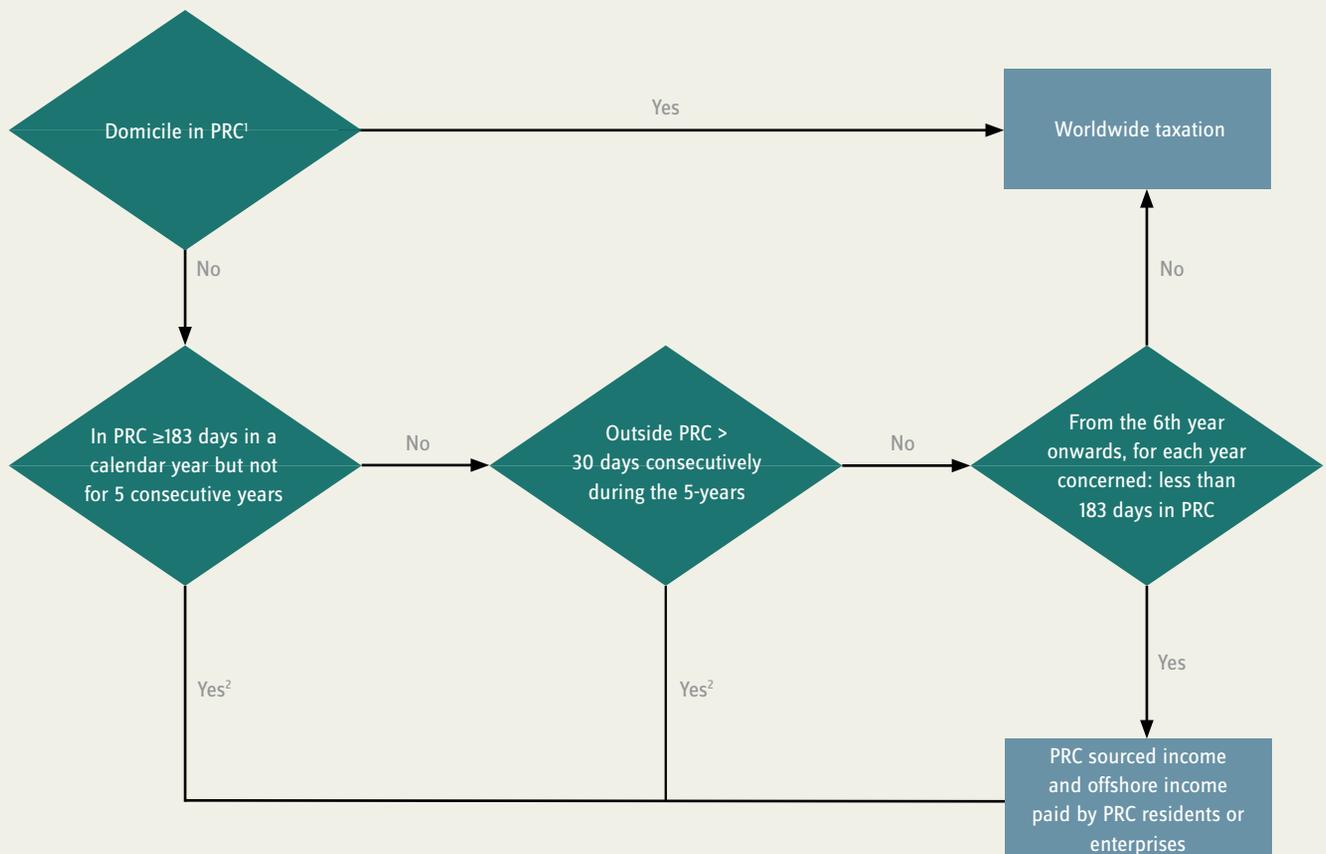
The new IIT laws allow deductions, for

all employees, in respect of childrens' education, continued education, medical expense for serious illness, mortgage interest or rent, and elderly support. The withholding agents' (e.g. employers) concerns regarding verification of expenses have subsided as in the papers, the SAT adopted an approach to impose standard deduction amounts for most deduction categories rather than based on actual expenses (see Table 1 for details).

Another piece of good news is that the

expatriate concession on non-taxable benefits are to be retained – expatriates can continue to enjoy non-tax concessions on childrens' education, language training, and housing allowance etc. or if they choose to, they can claim the standard deductions (but the same type of expenses can only be deducted once). This policy is most welcomed as the current standard deduction thresholds do not appear to have taken into account the much higher costs of living by expatriates.

Figure 1



<sup>1</sup> Individual who habitually lives in PRC due to household registration, family or economic ties

<sup>2</sup> Put on record filing is required in respect of offshore income exemption

Table 1

Deduction category	Amount in RMB		Criteria
	Annual	Monthly	
Child education	12,000	1,000	Eligible for parents with child (from 3 years old to higher education)
Continued education	4,800	400	Academic education
	3,600	N/A	Vocational education
Serious illness	Incurred amount between 15,000 and 60,000		Expenses borne by taxpayer with substantiation
Rental costs	14,400	1,200	Municipalities directly under the Central Government, capital cities or other cities listed separately
	12,000	1,000	Cities with population above 1 million
	9,600	800	Cities with population under 1 million
Mortgage interest	12,000	1,000	Mortgage interest under commercial mortgage or housing fund for the first residential property
Elderly support	24,000	2,000	If more than one child to claim, the deduction to be divided among the children

Although the public consultation paper states that the taxpayers are responsible for providing true and correct information, under the implementation guidelines, if the withholding agent is made aware of any discrepancies or false claims, they should request the taxpayer to clarify and correct the information or report to the tax bureau for handling.

Taxpayers are also entitled to request the withholding agents to, where appropriate, correct the tax withholding and, if the agent refuses to correct, the case should be reported to the tax bureaus for handling. To mitigate disputes among employers and employees, companies should set up clear policy and guidelines on the reporting, deduction and withholding process.

### Anti-avoidance rules

The new IIT laws introduced anti-avoidance rules on individuals which empowers the tax bureaus to make tax adjustment tax under the following circumstances:

- Transactions between individuals and related parties are not independent and not at arm's length.
- Profits are not allocated properly to resident individuals by an offshore corporation which is set up in a low tax jurisdiction without reasonable operational needs and the corporation is controlled by resident individuals or jointly controlled by resident enterprises.
- Inappropriate tax benefits derived through arrangements without reasonable commercial reason.

Under the implementation rules, the individual anti-avoidance rules are, predominately, consistent with the anti-avoidance rules for corporations. With respect to related parties transactions, the implementation rules added to the definition of related parties to include husband and wife, immediate family, brothers and sisters, and anyone maintained or supported by the individual.

The controlled foreign corporation regime follows the corporate income tax rules under which an offshore company is a controlled foreign corporation (CFC) if it is majority owned (more than 50 percent) by PRC tax residents. Putting the anti-avoidance rule into context, if a CFC is set up in a jurisdiction where the resulting tax is less than 50 percent of that calculated under the PRC Corporate Income Tax Law and does not distribute its earnings without reasonable commercial reason – defined as not distributing for the predominant purpose of achieving a reduction, avoidance or deferral of tax – any shareholder with at least a 10 percent interest can have their share of those undistributed profits attributed to them personally. The implementation rules also provides that a CFC can exist, even if the over 50 percent shareholding threshold is not met. A company is deemed to be a CFC if the PRC resident has effective control over the company in terms of shareholding,



capital, operation, sales and purchase decisions etc.

While not specifically related to the anti-avoidance laws, it is worth noting that the implementation rules set out that non-cash transfer of assets by way of gift, debt repayment, sponsorship and investment purpose are deemed disposal of the asset and subject to individual income tax accordingly. This will further close the existing loophole that may have been used by individuals to “dispose” of their assets without attracting tax.

The anti-avoidance laws, coupled with the information collected through enhanced information sharing between departments and the automatic exchange of financial asset information under the Organization for Economic Cooperation and Development’s (OECD) Common Reporting Standard (CRS) will give the tax bureaus the tools necessary to target aggressive tax planning and tax avoidance acts. The new laws will likely have a significant impact on offshore investments. PRC residents should reevaluate common holding structures for offshore investments that have historically been relying on gaps in the current IIT rules to avoid tax.

### Roadmap for improving tax compliance

Looking at the new PRC IIT laws and the implementation rules in conjunction with recent events in the tax arena leaves a clear impression – a future of tighter

rules and greater enforcement of tax obligations in Mainland China. There are also other indications that tax is becoming a topic of official and public scrutiny in the Mainland as it has around the world in recent years. For example, to clamp down on CRS avoidance, the OECD has recently published the result of its analysis of over 100 residence and citizenship by investment schemes offered by CRS-committed jurisdictions, identifying those schemes that potentially pose a high-risk to the integrity of CRS. The OECD has also made it clear that it will continue to work with CRS-committed jurisdictions, as well as financial institutions, to ensure that the OECD measures remain effective in ensuring that foreign income is reported to the actual jurisdiction of residence.

In the past few years, the world has made great progress in improving tax transparency, and it is important to strengthen law enforcement to ensure that taxpayers are law-abiding. The compliance model promoted by the OECD and adopted by countries like Australia and New Zealand seek to understand the taxpayer’s compliance behaviour and apply the most appropriate compliance strategy. The model recognizes there is a spectrum of compliance behaviour and discover what influences the taxpayers’ behaviours. Because most taxpayers have an ideal attitude of “willing to do the right thing,” the tax authority aims to make compliance easier or to assist them in complying. At the other end of the spectrum, regarding

taxpayers who decide not to comply, strong law enforcement helps maintain taxpayers’ overall confidence in the tax system.

Take for example the recent high profile case of the famous actress evading tax through the use “yin-yang” contracts. The heavy monetary sanction serves as a warning to others who choose not to comply; while the amnesty programme encourages compliance by making it easier and clearer for those who want to comply but do not always succeed.

### The way forward

The implementation rules provide helpful guidance to the application of the new PRC IIT laws. Taxpayers are encouraged to continue to review their tax arrangements and ensure they understand their compliance obligations. Businesses should also consider the implications of the new rules and devise appropriate talent and mobility policies that are fit for purposes.



**Daniel Hui** is Partner of China Tax and **Kate Lai** is Director of People Services of KPMG China.

# TechWatch 192

## The latest standards and technical developments

### Local updates

#### Members' handbook update no. 219

Update no. 219 contains amendments to accounting standards that are effective for annual reporting periods beginning on or after 1 January 2018.

#### Financial Reporting Standards Committee minutes

Summary of the 244th meeting of the Financial Reporting Standards Committee is now available.

#### Court-free amalgamation Q&As

The Institute published questions and answers relating to accounting for court-free amalgamations.

#### Invitation to comment

The Institute is seeking comments on the International Accounting Standards Board (IASB) Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* by 9 November.

### International updates

#### World Standard Setters Conference

At the International Financial Reporting Standards (IFRS) World Standard Setters Conference on 1 and 2 October, the Institute's standard setting team participated in discussions on cryptocurrencies and used the new Conceptual Framework published in June to consider how to account for them. The agenda papers and recordings of all discussions can be found on the IFRS Foundation website.

#### International Forum of Accounting Standard Setters

At the International Forum of Accounting Standard Setters (IFASS) on 2 and 3 October, the Institute's standard setting team shared:

- Hong Kong stakeholders' experiences on using the predecessor method to account for business combinations under common control (BCUCC), in a joint presentation with the Italian standard setter. Other global standard setters confirmed that the predecessor method is widely applied in the absence of a standard on BCUCC.
- IFRS/HKFRS 17 *Insurance Contracts* implementation progress in Hong Kong, issues raised by local stakeholders and staff observations, in a joint presentation with the Canadian and Korean standard setters. Together, we expressed our commitment to one global effective date.

#### IFRS updates

- September IASB *Update*
- September IFRIC *Update*
- Final webcast in a series relating to the IASB Discussion Paper *Financial Instruments with Characteristics of Equity*

### Professional accountants in business

#### How the distinct roles of internal audit and the finance function drive good governance

Effective governance involves many individuals throughout an organization, including internal audit and the finance function. International Federation of Accountants (IFAC) and The Institute of Internal Auditors have compiled insights from 11 governance experts to examine how the complementary roles of both functions drive sound governance.

The report identifies several key requirements for effective governance, including:

- An ethical corporate culture that

empowers effective leaders throughout the organization to carry out good governance processes;

- Effective communication and collaboration among the various roles; and
- Requisite competencies for internal audit and the finance and accounting functions to earn stakeholder support and respect.

#### New CPD series on business startup

This new series of seminars from September to November address the perspectives of both the entrepreneurs as well as investors such as venture capitalists and business angels in funding the investee business, the legal implications of founding a startup and the key elements leading to a sustainable business.

There is also a related experience sharing and networking event – the Entrepreneurs Sharing Forum, where a panel of entrepreneurs will share insights and stories about building a sustainable and successful business.

#### New CPD Series on China Today

The new China Today Series provides members with some insights into how we are connected with China's development – and can gain from it.

The seminars and workshops in the series run from October to December and aim to address the latest developments in China ranging from an overview of the economic outlook, to exploring new business opportunities both inside and outside China, and the continued opening up of the Chinese economy to the world.

### Small and medium practitioners

#### Institute launches Practice Management Series of Seminars for SMPs

The Institute is holding four seminars



on practice management from October to December to help small and medium practitioners better prepare for the challenges and opportunities ahead of them, and to adapt to future changes, improve their management and operational efficiency, as well as support their sustainability and help them achieve a successful future.

As reported in TechWatch Issue 188, members are encouraged to read the *Guide to Practice Management for Small- and Medium-Sized Practices (Fourth Edition)* recently updated by IFAC to adopt "good practices" in order to better serve their clients.

## Corporate finance

### SFC announces green finance strategic framework

The Securities and Futures Commission (SFC) announced a Strategic Framework for Green Finance for supporting the development of green finance in Hong Kong on 21 September. The SFC will enhance listed companies' disclosure of environment information, encourage asset managers take environment criteria into consideration of the investments, work closely with the Hong Kong Exchanges and Clearing Limited (HKEX) on listing and trading of green financial products and increase investors' awareness in this aspect.

### HKEX consultation on suspension of issuers with disclaimer or an adverse audit opinion

On 28 September, HKEX released a consultation paper to seek views on proposals to suspend issuers with disclaimer of opinions or adverse audit opinions on their financial statements from trading. Issuers can resume for trading if the related issues are rectified and sufficient information is disclosed to

investors. The current proposals aim to enhance investor protection by improving the quality and reliability of financial information released by the issuers. A summary of the proposals is set out in the press release.

The deadline for responding to the consultation paper is 30 November.

## Taxation

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Automatic exchange of financial account information in tax matters between the Mainland and HKSAR now in force.
- Advance Ruling Case (No. 65) on company amalgamations published.
- Stamp Duty statistics (August 2018).

## 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/CFT):

- Government notice 7033: An updated list of terrorists and terrorist associates has been specified under the United Nations (UN) Sanctions (Libya) Regulation 2011 (Cap. 537 sub. Leg. AW).
- Legal notice 157: The United Nations Sanctions (ISIL and Al-Qaida) Regulation 2018 has been published in the Gazette.
- Government notice (extraordinary) 53: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575).
- 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.

Members should also refer to the relevant page of the website of the Commerce and Economic Development Bureau and the Institute's AML webpage for further information and notices on sanctions and related matters.

### AML/CFT guidance

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

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

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



Please refer to the full version of TechWatch 192, available as a PDF on the Institute's website: [www.hkicpa.org.hk](http://www.hkicpa.org.hk)

# After hours

Book review Life and everything Let's get fiscal

## Book review



## Post-crash opportunities

Title: **Crashed: How a Decade of Financial Crises Changed the World**  
Author: **Adam Tooze** Publisher: **Allen Lane**

The Global Financial Crisis (GFC) that, depending on your perspective, began around 2008, seemed like a failure of capitalism and a market error on a giant scale. But for many financial professionals, it was a crash that was preceded by any number of ominous bumps and grinds in the preceding decade or so. Mexico's devaluation in 1994, the Asian financial crisis that began in 1998, Russia's financial chaos, the dotcom bust, and the Arthur Andersen collapse had all been signs that all was not structurally sound with the system.

For Adam Tooze, a British historian based in the United States, the GFC was as much a political as an economic failure. "There is a striking similarity between the

questions we ask about 1914 and 2008," he writes ominously of the year World War I began, presaging a global catastrophe that would last three decades.

"Did we sleepwalk into crisis, or were there dark forces pushing? Who is to blame for the ensuing human-induced, man-made disaster? Is the uneven and combined development of global capitalism the driver of all instability? How do the passions of popular politics shape elite decision-making? How do politicians exploit those passions? Is there any route to international and domestic order?"

Unfortunately, Tooze has no answers to these grand questions, but they neatly encapsulate the arc of the crisis, from the U.S. subprime mortgages to the

stressed banks to the imploding economy, including the great backlash against the financial and political establishment that began with Europe's anti-austerity protests and Occupy Wall Street and morphed, most recently, into the Brexit vote in the United Kingdom and the election of Donald Trump as U.S. President.

*Crashed* is a meticulously researched, far-reaching 700-page analysis of the GFC, exploring its causes and documenting the international response. Tooze devotes much research to China, which, as the crisis began, celebrated the 2008 Olympic Games in Beijing as a kind of coming-of-age party as a great power. Tooze notes that the Chinese desire for U.S. Treasury bonds had driven down yields, prompting

## Author interview: Adam Tooze

investors to seek out more profitable investments such as those subprime mortgage bonds.

While the GFC has largely been told in financial terms, Tooze – as an eminent economic historian – points out its impact on geopolitics, poisoning relations between Germany and Greece, the U.K. and the European Union, and widening trans-Atlantic divisions. The GFC was also a preview of the partisanship and localism to come, Tooze argues. “To view the crisis of 2008 as basically an American event was tempting because that is where it had begun,” he writes. “It also pleased people around the world to imagine that the hyperpower was getting its comeuppance.”

But while the crisis began in the U.S. – “It revolved around America’s budget deficit and its trade deficit,” Tooze writes – the response to the burgeoning national crisis was adroitly coordinated by the U.S. Treasury and Federal Reserve Board and was remarkably successful. “Its aim was to restore the viability of the banks. It not only did that but also provided massive liquidity and monetary stimulus to the entire dollar-based financial system, to Europe and the emerging markets beyond.”

Yet the economic measures came at a political cost. “Bailout” became a dirty word, Tooze notes. The U.S. Troubled Asset Relief Program (TARP), designed to stabilize the financial system and restore growth, became a symbol of crony capitalism. Although launched by the outgoing Republican administration of George W. Bush, TARP came to represent his successor, the Democratic Party’s Barack Obama, and would figure in the 2016 election that brought Trump to power.

“With Trump as President,” Tooze writes, “it is an open question whether the American political system will support even basic institutions of globalization, let alone any adventurous crisis fighting at a national or global level,” Tooze writes.

Despite the detail in which Adam Tooze describes the unfolding of the Global Financial Crisis (GFC), the historian is no better off at predicting the outcome of the next economic downturn.

And the much-lauded financial technology that has been developed in recent years could be of little help. “I am not sure that technical means were really what was lacking in 2008 to handle things better,” he tells *A Plus*. “But it does involve solving truly difficult political questions.”

To Tooze – the Kathryn and Shelby Cullom Davis Professor of History at Columbia University in New York – finding a way out of the GFC was a question of “resolving interest group conflicts and understanding a timely way the basic dynamic of the crisis.”

Tooze said the global economic balance was already shifting eastward by 2008. “Today the shift is an accomplished fact,” he says. “As far as global growth is concerned, China contributes more than the U.S., Europe and India put together.”

Systematic interconnections, he adds, continue to render events in Wall Street and the City of London important and there are still a lot of systemically important banks in the west. “But the drama of economic growth is now centred on Asia. Whatever happens, in short, China is pivotal.”

Tooze is concerned by the debt build-up in China over the past decade,

describing it as unprecedented for an economy of its modest income level. “Its financial institutions are still new and in many respects untested,” he says. “There is reason, therefore, to fear a financial crisis in China.”

However, he adds that if Chinese authorities exhibit the same “remarkable skill” at macroeconomic management they achieved during the GFC, “they may develop the same proficiency in the new discipline of macroprudential regulation.”

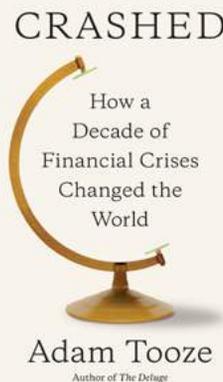
He notes that Beijing is not overly constrained by free-market dogmatism and does not face the same political checks and balances that “limit economic policymaking in the West.”

Despite his interest in China, Tooze acknowledges that he views history from the vantage point of New York. “And because

of my background I am caught up in the history of a continent, Europe, whose vantage point seems ever more provincial.”

Tooze, whose previous books include *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (2006) and *The Deluge: The Great War, America and the Remaking of the Global Order, 1916-1931* (2014) says the global interest in *Crashed* took him by surprise.

The historian hasn’t settled on his next publishing project, but believes there is a need for “more efforts to describe historically how we entered the radically new global condition that we inhabit today.”



## Life and everything

As recommended by *A Plus* editors

### Festival



#### THE RIGHT TO WRITE

The Hong Kong International Literary Festival is back next month for a jam-packed 10 days of discussions, lectures and workshops. Inspired by the global impact of the #MeToo movement, this year's theme celebrates feminism and women in the literary arts. American memoirist Cheryl Strayed will speak on female voices in literature, and novelist Meg Wolitzer will discuss her newest novel, *The Female Persuasion*, which talks about the generational clash between a charismatic feminist and her protégé. Author of the book-turned-film *Trainspotting* Irvine Welsh will also make an appearance to speak on his new book *Dead Men's Trousers*. Visitors can also expect to attend literary lunches and dinners, book signings, and readings.

Dates: 2-11 November

Venue: Tai Kwun Centre for Heritage and Arts

Tickets: [www.festival.org.hk](http://www.festival.org.hk)

#### Music



Paul Banks, singer of Interpol

#### CLOCKENFLAP IS BACK

The city's biggest yearly music festival is back for the eleventh time. The three-day extravaganza will feature close to a hundred international and local acts playing on six different stages, with acts such as New York rock group Interpol, R&B star Khalid and Mercury Prize winner Wolf Alice set to play the main stage. The food bazaar will include 20 different suppliers ready to serve energy-replenishing meals. Parents and children can also enjoy the installations onsite such as close-up magic, art and music workshops, and yoga activities.

Dates: 9-11 November

Venue: Central Harbourfront Event Space

Ticket price: HK\$930 (Friday), HK\$1,000 (Saturday), HK\$1,000 (Sunday),

HK\$1,720 (for all three days) Children 12-and-under: Free

Website: [www.clockenflap.com](http://www.clockenflap.com)

## Exhibition

### WHAT IS REAL

Exploring the possibilities of augmented reality, Liminal Encounters is an outdoor art journey. The overarching theme of this augmented reality-inspired exhibition revolves around how technology enables individuals to straddle the real and the virtual. Visitors can view the exhibition's art by downloading the special app onto their smartphones, pointing their device towards one of the artworks, and seeing it come to life. The art installation is part of BNY Mellon's 60th-anniversary celebration in Hong Kong.

Dates: 7 November - 6 January 2019  
 Venue: Asia Society Hong Kong Center,  
 9 Justice Drive, Admiralty  
 Opening hours: 11:00 a.m. - 6:00 p.m.  
 (Tuesday-Sunday), Last Thursday of every  
 month: 11:00 a.m. - 8:00 p.m.  
 Tickets: Free admission



Tagliolini with sakura ebi with white truffles



Pan-fried pumpkin espuma with white truffle foam

## Eat

### TRUFFLE TIME

Treat yourself to truffle-laden dishes at French-Japanese fusion restaurant, Takumi. The one Michelin-starred establishment offers diners some of the finest truffle-infused dishes prepared by acclaimed Japanese chef Daisuke Mori. From now until December, patrons can enjoy dishes such as pan-fried pumpkin espuma with white truffle foam and freshly-shaved white truffles, tagliolini with sakura ebi with white truffles, and desserts such as the silky panna cotta served with white truffle ice cream. The special nine-course tasting menu is a must-try and has a wine-pairing option. The 12-seater open-kitchen restaurant creates an intimate atmosphere with its quaint and intimate interior, making it ideal for any special occasion.

Address: Shop 1, The Oakhill, 16 Wood Road, Wan Chai  
 Opening hours: Lunch from 12:00 p.m. - 2:30 p.m.,  
 dinner from 6:30 p.m. - 10:30 p.m., closed on Sunday  
 Website: [takumibymori.com](http://takumibymori.com)



## Crunching numbers at the dawn of history

When it comes to lucky numbers, things don't seem to add up, says Hong Kong's humorist

**A**rcheologists deciphered an ancient document from the dawn of history – and it turned out to be a maths test.

Translators were probably hoping that the 2,000-year-old Ahmes Papyrus would reveal the location of a great pile of priceless treasure – but instead it reads as if it was written by a tutor in high school accounting: “If I want to swap  $x$  loaves of bread, how many pints of beer can I get?”

Egyptians were proud of inventing bread and beer, and liked mentioning them a lot. In the same way, I guess Hong Kong maths tests should focus on local obsessions: “If I pay HK\$5 million for a 350 square feet ‘apartment,’ is the price a) ridiculous, b) ludicrous, or c) insane?”

The papyrus writer, whose name has been translated as Moonborn the Scribe, is a bit of a cheerleader for accounting. In his text, he promises readers that getting a grip on numbers is the basis of “knowing all things, every obscure fact, and every secret there is.” That’s a bit of a stretch for an accounting textbook, but I guess he had sales targets like everyone else.

But poor old Moonborn had a problem. The Pharaohs didn’t care much about accurate numbers – they wanted lucky numbers. This is awkward, since the most important numbers in mathematics are not neat at all – pi is “three-ish” and the golden ratio is “one and half-ish.”

Yet, at least ancient numbers looked pretty – because they were written in hieroglyphics, which are little pictures.

Yeah yeah yeah, I know that Chinese characters are technically little pictures too, but until I see a

flame that looks like my daughter doing the splits, I’ll stay sceptical on that one.

In ancient Egyptian, pictographs actually look like pictures – although they are a bit random. The number one is a picture of a papyrus leaf. Ten is a bent leaf. One hundred is a coiled rope. One thousand is a lotus flower. One hundred thousand is a tadpole. And one million is a picture of a scribe. (This is strong evidence that the scribes designed this system.)

**“Just like pharaoh in the old days, some people today care more about numbers being lucky than being accurate.”**

I really think we should bring this system back just to liven up our annual reports. “Revenues were down by one coiled rope and a couple of leaves, but profits rose by two snakes and a lotus flower.” So much more elegant than using crass numbers, right?

Moonborn’s text is two millennia old, yet nothing much has changed – except now we no longer feel that we have to add things up to get lucky numbers.

Or do we? A sub-editor colleague, Wyng Chow, reminded me of a building in Hong Kong that offered its top floor, level 88, for sale – even though the building was only 42 stories high. Just like pharaoh in the

old days, some people today care more about numbers being lucky than being accurate.

Still, this reminds us that human beings were no less intelligent all those millennia ago. The first toilets, invented in the Indus Valley 5,000 years ago, sent stuff straight to a place where it was recycled as fertilizer, so they were often way ahead of modern people.

The bad news is that toilet paper was not invented until AD 105 in China.

This means that there is a smaller gap of time between the life of King Solomon and the invention of the iPhone than there was between the invention of toilets and the invention of toilet paper.

Which is pretty scary. Especially if you are waiting with your hand stretched around the toilet door for 3,105 years.

The main message here is that if you are revising for an accounting test, take heart from the fact that people have been suffering similar tests since the dawn of history.

And if you are ever asked to define the number known as pi – the answer is “three-ish.”



### Nury Vittachi

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



Success symbol



Success ingredient

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



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

**CPA: The Success Ingredient**

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



PATEK PHILIPPE  
GENEVE

Begin your own tradition.



You never actually own  
a Patek Philippe.

You merely look after it for  
the next generation.



Calatrava Ref. 6006G

Tel: (852) 2317 7866, (852) 2317 7312  
[patek.com](http://patek.com)