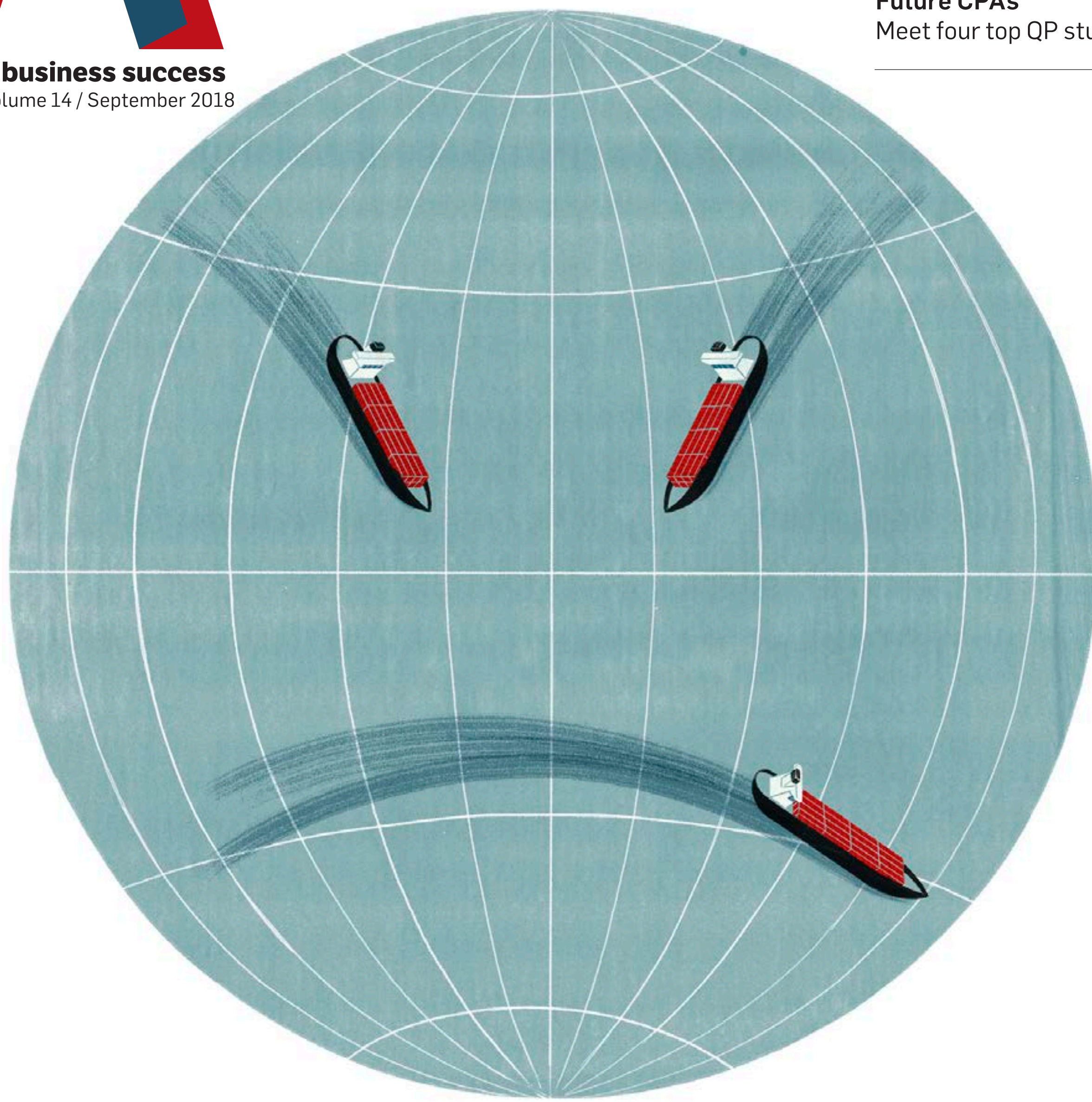
A+
Driving business success
Issue 9 / Volume 14 / September 2018

Plus:

Profile
American Chamber of Commerce President Tara Joseph

Greater Bay Area
Experts assess initiative's harmonization issues

Future CPAs
Meet four top QP students



TRADE WAR: Who gets hurt?

How escalating U.S.-China trade war impacts Hong Kong and its businesses

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IT Conference 2018

Impact of FinTech and Artificial Intelligence to the Accountancy Profession

Guest of honour

Mr. Peter YAN
Chief Executive Officer
Hong Kong Cyberport Management Co. Ltd

Keynote speakers

Mr. Herbert CHIA
Venture Partner
Sequoia Capital China Fund

Mr. Steven LEE
Founder & CEO
MoneySQ.com

Other speakers

Ms. Sarah FOO
Partner Consultant, Hong Kong
Xero

Mr. Jeff LAM
Managing Director, Greater China
SAP Concur

Mr. Karl-Michael MOUANTRI
Managing Director
CCH® Tagetik Asia Pacific

Date: Saturday, 20 October 2018

Time: 9 a.m. – 1 p.m.

Venue: Ballroom, Ritz Carlton, International Commerce Centre (ICC), 1 Austin Road West, Hong Kong

Platinum sponsors: SAP Concur, Wolters Kluwer, xero

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(For enrolment)

"The future of Accounting Plus will mean more CPAs becoming entrepreneurs and it is vital that the Institute supports all our members – whatever path they are following."

Dear members,

Summer is over, and as we celebrate Mid-Autumn Festival with our families, attention turns towards the cooler and dryer days ahead.

I hope you and your family saw Typhoon Mangkhut pass by safely. The typhoon was the worst storm to hit Hong Kong in almost 40 years. We should be thankful that our city is resilient and built to handle such violent storms without too much disruption.

Just one day after the typhoon was the President's Dinner, featuring guest of honour Norman Chan, Chief Executive of the Hong Kong Monetary Authority. My thanks to the Institute staff for successfully organizing the event, even with the disruption the typhoon caused. The President's Dinner celebrated the achievements of the Institute's past presidents and current Council and committee members for the profession. In his remarks, Norman discussed Hong Kong's strategic position as the conduit between the Mainland and the rest of the world – and how this is likely to develop as the Greater Bay Area takes shape. You can read more about the Greater Bay Area, and the profession's expectations for it in this month's accounting feature *A Greater Role in the Greater Bay Area*.

At the beginning of September, we co-hosted the annual National Day Dinner Celebration for the accounting profession with the Society of Chinese Accountants and Auditors. Over 700 representatives of our profession, Mainland and Hong Kong governments, businesses and other stakeholders gathered together for the celebrations at the Hong Kong Convention and Exhibition Centre.

I always enjoy spending time with the next generation of accountants, and this month I had the pleasure of meeting some of the top Qualification Programme students from the last two exam sessions in June and December, who were receiving awards from the Institute for their examination achievements. At a ceremony, I spoke to the audience on their future in the age of Accounting Plus, and the wide career opportunities ahead of them. I was so happy to see that the future of our profession is as dynamic and eager for new challenges and the opportunities ahead as they were. Four of the awards winners were also interviewed for *A Plus* this month, sharing their motivations and experiences in the article *The Future*.

More and more people are becoming entrepreneurs nowadays, including accountants. This is why I am happy to see the Institute has developed a series of seminars called the Business Startup Series running until November. The events focus on the details of starting up your business, including funding, legal issues, and how to ensure your business is sustainable. The future of Accounting Plus will mean more CPAs becoming entrepreneurs and it is vital that the Institute supports all our members – whatever path they are following.

Have you been following the Accounting Plus video series? The first series of interviews featured accountants under the age of 35 who are chief financial officers and the second, featuring accounting firm partners, are being released now. Check out the videos on the Institute's YouTube page to learn how these groups of young – and successful – Accountants Plus see the future of the profession developing.

I wanted to end by offering my congratulations to a Past President, who is also a fine example of Accounting Plus – Tim Lui. Tim was recently appointed Chairman of the Securities and Futures Commission and demonstrates the extent of roles available to accountants (and former accountants) and the contributions we can make to society as a whole. Best of luck Tim with the role of helping our financial markets remain competitive and maintaining the trust in the markets.

Eric Tong
President

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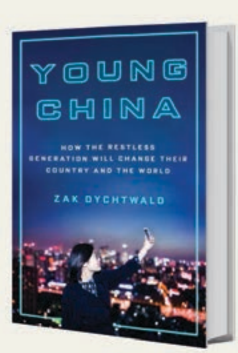

Driving business success

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

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

President Eric Tong

Vice Presidents Patrick Law, Johnson Kong

Acting Registrar Jonathan Ng

Director, Marketing & Communications Terry Lee

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
Email: hkicpa@hkicpa.org.hk

M&L

Editor Gerry Ho
Email: 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: derektsang@mandl.asia
Tel: (852) 2164-8901

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News

Institute news

Outstanding QP students awarded

Award ceremony for QP top students and scholarship recipients

The Institute hosted an award ceremony for Qualification Programme (QP) top students and scholarship recipients on 22 September, representing a new generation of Hong Kong CPAs.

During the event, the top three candidates in the December 2017 and June 2018 examination sessions were awarded bronze, silver and gold plaques and certificates of merit.

Joseph Chan, Under Secretary for Financial Services and the Treasury, was the guest of honour and presented the bronze awards and QP top candidates awards. The silver awards and BDO Prize of HK$5,000 were presented by Angela Wong, Director of Human Resources at BDO, while the gold awards and Li Fook Shu Memorial Prizes of HK$10,000 were presented by William C.M. Cheng, General Manager and Group Chief Financial Officer at the Bank of East Asia.

The Institute of Chartered Accountants in England and Wales Prizes, QP and university scholarships were also presented to students during the ceremony.

Read more about the QP and what top QP students think about the programme on page 38.

National Day celebration dinner

More than 700 members and guests joined the 69th National Day celebration dinner for the accounting profession on 4 September. The guests of honour this year were Tan Tieniu, Deputy Director, the Liaison Office of the Central People's Government in the HKSAR; Yang Yirui, Deputy Commissioner, Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the HKSAR; and Joseph Chan, Acting Secretary for Financial Services and the Treasury.

President's dinner

The annual President's dinner was held this month, with Norman Chan, Chief Executive of Hong Kong Monetary Authority, as the guest of honour. The dinner gathering, attended by past presidents, Council members, committee chairs and senior management, invites Hong Kong's leading figures to share their views on issues affecting the profession and the city.

Delegation from Chinese People's Political Consultative Conference

The Institute welcomed a delegation of 29 Chinese People's Political Consultative Conference on 13 September. The delegates comprised of professionals including accountants, lawyers, architects, and planners. The Institute's management provided them an overview of the Hong Kong profession, the Institute's roles and operations, its relationships with Mainland organizations including regulators, its participation in international affairs, and an introduction on how the Institute serves and supports its members. The delegation also learnt about the Qualification Programme and its recognition in Mainland China and globally.

Business startup series

A series of seminars designed to provide valuable insights to members planning or considering to start their own business will run until November. Seminars cover topics such as challenges in the startup and venture capital community from the perspectives of both the entrepreneurs and early-stage investors; key elements of sustainable business for entrepreneurs; and the registration procedures, intellectual property rights and the risks of ignoring them. On 15 November, a sharing forum will be held featuring a panel of successful entrepreneurs who will share insights and their personal experiences in building a business.

A Plus audience survey

Help us improve the print and online versions of *A Plus* by completing a quick survey, available on both the Institute's website and *A Plus* website.

Resolution by Agreement

Kam Hau Choi, Anthony, CPA (practising) and Anthony Kam & Associates Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of *Professional Competence and Due Care* in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants (COE).

Anthony Kam & Associates Limited (the corporate practice) was appointed as the new auditor of Sino Agro Food, Inc., a United States-listed company, in June 2013. It expressed unqualified auditor's opinions on the consolidated financial statements of the company and its subsidiaries for the years ended 31 December 2013 and 2014 and the comparative figures in each of those financial statements. Kam was the engagement director for the audits.

The U.S. Public Company Accounting Oversight Board (PCAOB) found that the respondents had violated PCAOB rules and standards as well as the Securities Exchange Act of 1934, and imposed disciplinary sanctions on them. The company's 2012 financial statements had been audited by another auditor. The respondents expressed an unqualified auditor's opinion on the 2012 comparative figures included in the 2013 financial statements without performing sufficient procedures to support the opinion. Instead, they relied exclusively on a management representation letter that they had obtained and the predecessor auditor's 2012 audit documentation. In addition, the respondents did not gather sufficient evidence to support revenue, certain journal entries and other accounting adjustments included in the 2013 and 2014 financial statements.

Regulatory action: Based on the foregoing, the sanctions imposed by PCAOB and in lieu of further proceedings, the Council concluded that the following should resolve the complaint:

1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. The respondents be reprimanded;
3. Each of the respondents pay an administrative penalty of HK$25,000; and
4. They jointly pay costs of HK$10,000.

Disciplinary findings

Kwok Chee Tack, CPA, Wong Kam Man, Kevin, CPA (practising) and Ernst & Young

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

During the years 1997 to 2002, Ernst & Young (EY) was the reporting accountant of three companies for the listing of their shares in Hong Kong. The companies, which were under common ownership, were Gold Wo International Holdings Limited (Gold Wo), Fu Cheong International Holdings Limited (Fu Cheong) and Yue Fung International Group Holding Limited (Yue Fung).

EY was also the auditor of these companies. Wong was the engagement partner of the Gold Wo engagements and Kwok was the engagement partner of the Fu Cheong and Yue Fung engagements.

EY expressed unmodified opinions in the accountants' reports for the three companies. It also expressed unmodified auditor's opinions on the consolidated financial statements of Gold Wo and its subsidiaries for accounting periods ended in the years from 2000 to 2002; of Fu Cheong and its subsidiaries for accounting periods ended in the years 2000 and 2001; and of Yue Fung and its subsidiaries for accounting periods ended in the years from 1999 to 2002.

In response to the 2002 arrests of persons connected with the three companies, the Institute instigated three investigations under the Professional Accountants Ordinance (Cap. 50) (PAO) into the conduct of the relevant CPAs and CPA practices in connection with the accountants' reports and audit engagements. The investigations were put on hold while the Independent Commission Against Corruption carried out criminal investigations into certain CPAs' involvement in fraudulent activities with regard to the three companies.

Relevant criminal proceedings were concluded in 2010. Various individuals, including some members of the companies' management, were found guilty of conspiring with others to defraud stakeholders by falsifying financial records and documents.

In 2010, the three Investigation Committees were reorganized into a single committee and the investigation proceeded. In November 2015, the Investigation Committee submitted its reports to the Council of the Institute, noting that the respondents would have a case to answer.

In light of the findings set out in the reports of the Investigation Committee, complaints were lodged against the respondents under section 42C(1) of the PAO.

The Disciplinary Committee found, in relation to the Gold Wo engagements, that:

(i) Wong and EY were in breach of Statement of Auditing Standards (SAS) 100 *Objective and General Principles Governing an Audit of Financial Statements*, SAS 200 *Planning*, SAS 230 *Audit Documentation* and SAS 400 *Audit Evidence* for their deficient audit work in the areas of sales and receipts for sales, purchases and related cash disbursements, and long-term investments.

(ii) Wong and EY were in breach of Statement 1.200 Professional Ethics – *Explanatory Foreword* and Statement 3.340 Auditing Guideline – *Prospectuses and the reporting accountant* for their failure to adequately review the preceding auditors' work for 1998 and 1999, to document the work performed as part of the review and to perform relevant analytical procedures.

The committee found, in relation to the Fu Cheong engagements, that:

(i) Kwok and EY were in breach of SAS 100, SAS 200, SAS 230 and SAS 400 for their deficient audit work in the areas of sales and receipts for sales, and purchases and related cash disbursements.

(ii) Kwok and EY were in breach of Statement 1.200 Professional Ethics and Statement 3.340 Auditing Guideline for their failure to adequately review the preceding auditors' work for 1998 and 1999, to document the work performed as part of the review and to perform relevant analytical procedures.

The committee found, in relation to the Yue Fung engagements, that Kwok and EY were in breach of SAS 230 and SAS 400 for their deficient audit work in the areas of sales and sales receipts.

Decisions and reasons: Kwok, Wong and EY were reprimanded. In addition, the Disciplinary Committee ordered Kwok, Wong and EY to pay penalties of HK$200,000, HK$100,000 and HK$400,000 respectively. Further, the three respondents were ordered to pay costs of disciplinary proceedings of the Institute in the sum of HK$1,527,416. When making its decision, the committee considered the particulars in support of the complaints, the parties' submissions and their conduct throughout the proceedings.

Seto Man Fai, a former CPA (practising) and Lo Hung Yan, a CPA (practising)

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

Seto and Lo were the directors of Parker Randall CF (H.K.) CPA Limited (practice), which is now deregistered. While carrying out a practice review, the reviewer found that the practice failed to establish and maintain an effective system of quality control. Additionally, the reviewer found significant deficiencies in the practice's audit and assurance engagements, including the audit of a Hong Kong-listed company, Superb Summit International Group Limited, for the financial year ended 31 December 2013 by Seto and the compliance audit of a regulated company by Lo.

The Disciplinary Committee found that:

(i) Seto and Lo were in breach of the Corporate Practices (Registration) Rules for failing to ensure the practice had complied with Hong Kong Standard on Quality Control 1;

(ii) Seto was in breach of paragraphs 290.220 and 290.222 of the COE for failing to carry out the fee independence assessment of his audit clients;

(iii) Seto was also in breach of Hong Kong Standard on Auditing (HKSA) 500 and the fundamental principle of *Professional Competence and Due Care* under paragraphs 100.5(c) and 130.1 of the COE when carrying out the audit of Superb Summit;

(iv) Lo was in breach of HKSA 230, HKSA 500 and Hong Kong Standard on Assurance Engagements 3000 and the fundamental principle of *Professional Competence and Due Care* under paragraphs 100.5(c) and 130.1 of the COE when carrying out the audit and compliance reporting of a regulated company.

Decisions and reasons: Seto and Lo were reprimanded. The practising certificate (PC) issued to Lo is to be cancelled with effect from 21 August 2018 and no PC shall be issued to him for nine months.

The Disciplinary Committee also ordered that a PC shall not be issued to Seto for 18 months. This is the third order against Seto. He was previously removed from the register of CPAs for five years from 22 March 2018, pursuant to an order issued by another Disciplinary Committee in January 2018 (first order). Subsequent to the first order, Seto was also subject to another Disciplinary Committee order issued in June 2018 (second order) which ordered that a PC shall not be issued to him for 12 months with effect from 21 March 2023.

The committee ordered that nine months of the 18-month PC non-issuance period of his third order will run concurrently with the first order and the remaining nine months is to be consecutive to the first order. Seto is therefore not eligible for issuance of a PC until 20 March 2024.

In addition to the above, Seto and Lo were ordered to pay costs of the disciplinary proceedings of HK$91,127 and HK$54,721 respectively.

When making its decision, the Disciplinary Committee took into consideration the particulars in support of the complaint and the parties' submissions. The committee also noted that a high degree of public interest was involved in the audit of a listed company and regulated company and the sanction should reflect this.

Ying Tze Yeuk, CPA (practising) and T.Y. Ying & Co.

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of *Professional Competence and Due Care* in sections 100.5(c) and 130.1 of the COE.

Ying is the sole proprietor of T.Y. Ying & Co. which expressed unmodified auditor's opinions on the financial statements of a private company for each of the six years ended 31 December 2010 to 2015.

There was non-compliance with accounting standards in the area of property, plant and equipment included in the 2010 to 2015 financial statements, and in the area of income tax included in the 2014 and 2015 financial statements. Further, there were numerous casting errors, incorrect and missing cross-references, incomplete disclosures and inconsistencies in the financial statements, auditor's reports and other information attached.

Decisions and reasons: The respondents were reprimanded. They were also ordered to pay a penalty of HK$70,000 and disciplinary proceedings expenses of the Institute of HK$49,746. When making its decision, the Disciplinary Committee considered the particulars in support of the complaint, the complainant's submissions, Ying's previous disciplinary records and the respondents' conduct throughout the proceedings.

Details of the disciplinary findings and guidelines for the Resolutions by Agreement are available at the Institute's website: *www.hkicpa.org.hk*.

Former Institute president named new SFC chairman

The Hong Kong government has appointed Tim Lui as the new Chairman of the Securities and Futures Commission (SFC). Lui, a past president of the Hong Kong Institute of CPAs, will succeed Carlson Tong Ka-shing, who is serving out the six-year maximum tenure.

Lui, who is currently Senior Tax Adviser at PwC, will step down from the position at the end of the month before taking up the role at the SFC for a three-year term, starting from 20 October.

"I am privileged to have been appointed as the Chairman of the SFC to build upon the strategic priorities set by Carlson and the Board. I look forward to helping to guide the SFC – a world-class securities regulator – to meet new challenges and opportunities during my tenure," Lui said.

Lui studied for 12 years in the United Kingdom, where he obtained a Master of Business Administration degree. He later joined Coopers & Lybrand's (now PwC) London office as an articled clerk. In the 1980s, he returned to Hong Kong to the same firm, where he became senior partner until his retirement. He was elected president of Institute in 1997.

Illustration by Harry Harrison

KPMG admits misconduct in BNY Mellon reports

KPMG and the firm's partner, Richard Hinton, admitted to misconduct over the audit work the firm carried out for BNY Mellon, the United Kingdom's Financial Reporting Council (FRC) said this month. A probe into the 2011 reports on client assets held by the bank and its London branch revealed that the firm and Hinton failed to give adequate consideration on whether the records of custody relationships maintained by BNY Mellon were compliant with certain rules, the FRC said. The accounting watchdog issued new guidance for client assets reports in 2011. "We accept and regret that our work did not fully reflect all aspects of this new guidance," KPMG said in an email to *Reuters*. A disciplinary tribunal will be convened to decide what sanctions should be imposed.

Hotpot chain shares soar in Hong Kong debut

Hotpot restaurant chain Haidilao saw its shares climb as much as 10 percent in early trading as it made its debut on the Hong Kong stock exchange on 26 September. Shares opened at HK$18.80, up from an initial public offering price of HK$17.80 – the top end of its target range – and reached HK$19.64 at one point. Haidilao's stock closed at HK$17.82 per share. The company owns more than 300 restaurants in Mainland China. It is known for its Sichuan-style hotpot and for offering board games and manicures to customers waiting to get a seat.

Apple pays Ireland more than €14 billion taxes

Ireland's government has collected €14.3 billion in back taxes and interest from Apple, which it will hold in an escrow fund pending the company's appeal against a European Union tax ruling, media reported this month. The European Commission ruled in August 2016 that Apple had received unfair tax incentives from the Irish government, allowing the company to pay a maximum tax rate of 1 percent instead of the usual corporation tax rate of 12.5 percent. The tech giant and Dublin are appealing against the ruling, saying the tax treatment was in line with Irish and EU law.

Hong Kong banks share customer details in global anti-tax evasion scheme

More than 1,700 financial institutions in Hong Kong have submitted account details to local authorities of customers who are tax residents of 75 jurisdictions in a bid to clamp down on tax evasion, the *South China Morning Post* reported this month. The city will send information annually to local tax authorities in 50 of the jurisdictions, with which it has agreements. The first exchange is set to take place end of this month. Mabel Chan, immediate past president of the Institute, urged financial account holders in the city who are tax residents elsewhere to seek advice from professional consultants on their liabilities, reported the *SCMP*. "This [would be especially important] for those from jurisdictions implementing worldwide tax, such as China," Chan said.

A world of numbers

US$1 billion

The estimated value of claims faced by insurance companies following the damage caused by Typhoon Mangkhut, which ripped through Hong Kong on 16 September, according the *South China Morning Post*.

57%

The percentage of accountants in the United Kingdom who have felt pressured to act unethically, according to a survey conducted by the Chartered Institute of Public Finance and Accountancy. The most common forms of misconduct include supporting excessively optimistic budgets and business cases, and downplaying risks.

¥57.8 billion

The total value of proceeds from Chinese telecommunications, media and technology (TMT) IPOs in the first half of 2018, according to PwC. Foxconn Industrial Internet Co., iQiyi, and Bilibili were the three largest TMT IPOs of the first half of the year.

Jack Ma

AFP
Mark Weinberger

❶ Former PwC executive to replace Jack Ma

Jack Ma, Chairman of e-commerce giant Alibaba Group Holding, will be replaced by current Chief Executive Officer and former PwC executive Daniel Zhang, as part of a succession plan announced on Ma's 54th birthday. By 10 September 2019, the multi-billionaire will resign to focus on philanthropy and teaching, and says the move will fostering long-term growth and reduce independence on any one person in the company. "I have put a lot of thought and preparation into this succession plan," Ma wrote in a letter to Alibaba customers and shareholders. Zhang, the current Director and Chief Executive Officer of the company, was senior executive at PwC's audit and business advisory division in Shanghai. Alibaba was founded in 1999 by Ma and 17 co-founders.

❷ PwC U.K. launches flexible working scheme

PwC is allowing some of its new recruits to decide on their own working hours. By providing better hours and even part-time contracts, the firm aims to attract a more diverse pool of talent that might have otherwise dismissed the firm due to its traditional work schedules. Dubbed the Flexible Talent Network, the scheme also offers new employees the option of working only a few months of the year. Laura Hinton, Chief People Officer at the firm said, "People in the network will get to spend their year their way, whether it's because of caring commitments, entrepreneurs supplementing their income, people who want to travel or simply not work all of the year." More than 2,000 people registered for the scheme within the first two weeks.

❸ Tesla chief accountant officer resigns

The Chief Accounting Officer of Tesla, Dave Morton, quit just shy of a month after signing his contract, claiming he was ignored on multiple occasions by colleagues, including Chief Executive Officer Elon Musk. Morton notes that executives, including Musk, were not concerned with various financial obstacles, even after he brought up specific details such as equity change of control provisions and potential step-ups in the value of Tesla's debt associated with a new controlling shareholder. Following a meeting with Musk to discuss details regarding taking the company private and a tweet announcing the decision, Morton claims he was ignored, and after two weeks concluded he was neither heard or understood.

❹ No need to break up Big Four, says EY chief

Mark Weinberger, EY's Global Chairman and Chief Executive Officer, hit back at calls for the Big Four to break up by critics concerned about the audit market being dominated by EY, KPMG, PwC and Deloitte, leading to low quality audits of companies, and conflicts of interest. Weinberger said EY needed to draw on expertise from across its business in order to conduct high-quality audits for multinational clients, the *Financial Times* reported this month. While he understands the scrutiny of auditors, he commented that clients such as Google and Amazon could not be served "without a multidisciplinary group of people to assess their risks going forward as a business, and [those employees] don't all sit in our audit practice."

CAUGHT IN THE CROSSFIRE

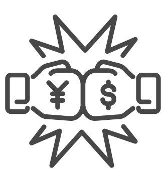
The trade war between the United States and Mainland China is escalating quickly. Nicky Burridge finds out how tensions between the world's two biggest economies affect the middleman, Hong Kong

Illustrations by Alex Nabaum

Shoppers in Hong Kong received a pleasant surprise early last month when supermarkets and wet markets displayed an abundance of cheap cherries. The price of American cherries had dropped by around 20 percent compared with last year. The price of apples, plums, blueberries, peaches and prunes also fell by between 10 percent and 20 percent, and beef from the United States was also cheaper.

Fruit lovers had the brewing trade war between the U.S. and China to thank for this. Originally destined for the Mainland, the cherries were diverted to Hong Kong after Mainland China slapped a 25 percent tariff on US$34 billion worth of American products ranging from fruits, seafood, meat, vegetables, dairy products, and poultry, to cigarettes and cars on 6 July, in retaliation to similar charges imposed on certain Chinese imports by the U.S.

Anthony Tam, Executive Director of Mazars Tax Services, and former chairman of the Institute's Taxation Faculty Executive Committee, warns that the price of food is likely to inflate if the trade war continues for too long. "It is inevitable that the higher tariffs will bring in price inflation in China, and possibly in Hong Kong," he says.



United States tariffs on US$200 billion worth of Chinese goods and retaliatory tariffs by Beijing on US$60 billion worth of U.S. products took effect on 24 September.

The trade war started in January when U.S. President Donald Trump announced tariffs of 30 percent on imported solar panels and 20 percent on large washing machines, many of which come from the Mainland. These were soon followed by a 25 percent tariff on steel imports and 10 percent on aluminium imports. While the early rounds of tariffs did not solely impact the Mainland, Trump singled out the country for criticism for what he considered to be unfair trade practices, accusing it of depreciating its currency and stealing the intellectual property of U.S. companies.

As the world's largest steel exporter, Mainland China retaliated with its own tariffs of between 15 to 25 percent on 128 products from the U.S., from fruit and wine to pork products.

The tit-for-tat threats continued, culminating in both sides imposing 25 percent tariffs on US$34 billion of the other's goods on 6 July. Things continued to escalate, with Trump most recently announcing tariffs on a further US$200 billion of Chinese goods, to which the Mainland responded with tariffs on an additional US$60 billion of U.S. imports. To date, the U.S. has imposed exclusive tariffs on US$250 billion worth of Mainland China's products, and the Mainland has put them on US$110 billion of U.S. ones.

The trade war threatens to have a significant impact on Hong Kong's economy, which is highly dependent on trade. The value of exports reached US$497.3 billion in 2017.

"Free trade is an important foundation of our success. The total value of traded goods and services was about 375 percent of our gross domestic product."

In April, Financial Secretary Paul Chan warned that the current tensions could affect jobs in Hong Kong. "Free trade is an important foundation of our success. The total value of traded goods and services was about 375 percent of our gross domestic product (GDP)," Chan wrote on his official blog.

Impact on Hong Kong

While the tariffs Trump has imposed on the Mainland do not apply to Hong Kong, the city is still expected to suffer as a result of the situation. Johnson Kong, Managing Director – Non-Assurance at BDO Hong Kong, and the Hong Kong Institute of CPAs' Vice President, explains: "Hong Kong is an entrepôt, so the trade war has a very significant effect on us."

He says the total volume of U.S.-China trade that passed through Hong Kong in 2017 was worth around HK$350 billion. "This represents 13 percent of Hong Kong's GDP. It is not a small figure at all." He adds that while China exported US$505 billion of goods to the U.S. in 2017, this figure only captures finished products, with much of the raw material and components passing through Hong Kong.

Tam agrees that the trade war will have a significant impact on Hong Kong, pointing out that of the US$34 billion worth of Chinese goods that Trump imposed tariffs on in July, 17 percent passes through Hong Kong. He adds that nine percent of the U.S. products on which the Mainland has imposed tariffs, also go through Hong Kong. "It remains to be determined what the impact is of the additional US$200 billion worth Chinese products to be subject to additional customs duty," he says.

Kong explains that trading and logistics accounts for between 22 percent to 23 percent of GDP and employing around 20 percent of Hong Kong's labour force. "The trade war will for sure slow down Hong Kong's economic growth," he says.

The situation is also expected to have an impact on other areas of the economy. The strong Hong Kong dollar, due to its peg to the U.S. dollar, and the depreciating Renminbi, has led to a fall in Mainland visitors, impacting the tourism sector, Kong says.

The professional services sector

is also likely to suffer, with Kong expecting to see a fall in demand for services relating to import and export activity, such as trade financing and insurance on goods going through the city. He adds that the negative impact on Hong Kong companies is reflected in the Hang Seng Index, which has been declining steadily since the trade war started in January.

Small- and medium-sized enterprises (SMEs) in Hong Kong are also being hit. Tam points out that many of the trading companies in Hong Kong are SMEs.

"About 70,000 of these traders have manufacturing bases in China, and most are in the Pearl River Delta," he says. "The industries that would be affected the most would be the trading sectors and the related industries such as transhipment business and the cargo terminals."

"As one of the world's leading logistic service providers, we are expecting a direct hit on our business, mainly in the trade lane between China and U.S., in both exports and imports."

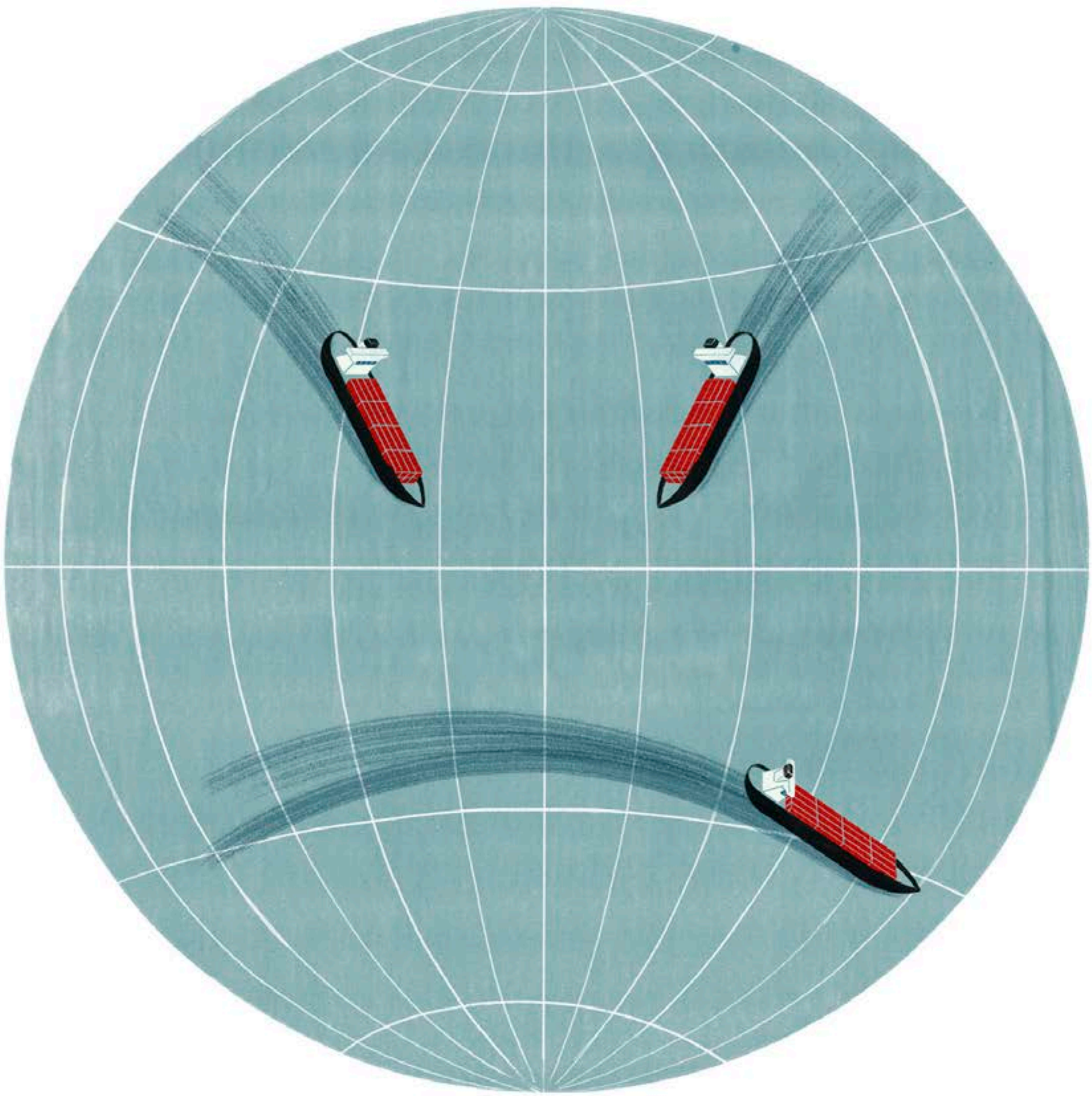
He adds that other industries indirectly impacted include the legal, accounting and logistic sectors, which support the trading companies. Kong agrees: "Most SMEs are in the import-export wholesale industry, followed by the business and professional services industry. Many of these will be affected by the trade war."

Logistical challenges

Logistics companies are experiencing mixed fortunes as a result of the tariffs. Institute member Terence Wong, Chief Financial Officer of Greater China at DHL Global Forwarding, a division of the logistics company providing air and ocean freight forwarding services, says: "As one of the world's leading logistic service providers, we are expecting a direct hit on our business, mainly in the trade lane between China and U.S., in both exports and imports."

He adds that because the trade war is not yet at its full scale, with many consumer products not yet covered, the full impact is not yet being felt. "Most of our customers are boosting their exports before the trade-war escalates to the next level, and we saw an unexpected volumes growth in August," he says. "However, once the trade war escalates to US$200 billion, covering most consumer products, then we are expecting the volumes will drop in the next two to three months."

Eddie Lau, Group Financial Controller at logistics company Kerry Logistics, and an Institute member, points out that the Mainland is no



longer the world's factory, with many large producers shifting their production facilities from Mainland China to lower cost locations in Southeast Asia several years ago.

He thinks the tariff situation will accelerate this process among medium-sized manufacturers who still produce their products in the Mainland. "They have been in China for many years, but now they have no choice but to move some of their production facilities down to Southeast Asia," he says.

Lau adds that the country of origin of some products is also becoming less clear-cut. He explains that many Mainland manufacturers are now only carrying out partial assembly in the Mainland, with the final assembly done in Southeast Asia, before products are shipped to the U.S. "Today with globalization, what is made in China is already very blurred. As a result, we call the current situation a trade diversion not a trade war," he says.

He expects there to be more activity in Asia as a result of the political tension, which benefits Kerry Logistics, as it is strong in Southeast Asia. "Because of this situation, we have got more business by moving parts to Southeast Asia; we have got more cargo movement than before."

But Lau adds that this higher volume may not last over the long term, particularly if the U.S. becomes more stringent in checking a product's country of origin for all of the major parts of a product.

"We are expecting a worst-case scenario that it will last for quite a while, maybe until the end of Donald Trump's presidency."

What next?

It seems unlikely the trade war will be resolved quickly. Not only were further tariffs imposed by both side this month, but Trump is threatening to introduce them on an additional US$267 billion of Chinese goods, meaning they would cover all Chinese imports. There are also no talks currently scheduled to try to resolve the issue. Even before the latest round of tariffs were imposed, economists were not expecting a quick resolution.

In a survey carried out by *Bloomberg* in July, economists forecast the trade war to last between three months and three years, with the average analyst expecting it to continue for another year.

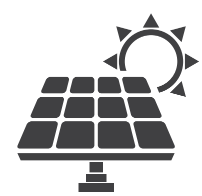
Nick Marro, Analyst at The Economic Intelligence Unit, points out that the core of the dispute revolves around Mainland China's economic policy, as well as how the U.S. and Mainland China approach the rules-based international trading system. "Even if both sides are able to dial-down the trade war in the short term, which looks increasingly unlikely, these fundamental differences will ensure that bilateral friction between both countries persists in the long term," he says.

Wong at DHL is also pessimistic: "We are expecting a worst-case scenario that it will last for quite a while, maybe until the end of Donald Trump's presidency," he says. But with mounting pressures on both sides, Kong believes it will be resolved sooner, possibly within three to six months.

Until a resolution is reached, Tam points out that companies could consider doing customs planning. "There are U.S. customs specialists advising clients on this situation. Trading firms should consult these advisors to reduce the impact."

He explains that U.S. importers can use the concept of "first sales approach" by declare the factory price, rather than the trader selling price of goods, in order to determine the U.S. custom duty, reducing the amount they have to pay. But with no end to the current tensions in sight, the impact is likely to be felt for some time.

Wong says: "I think this could be the biggest disruption to the global economic system that we have seen in decades."



On 22 January, United States President Donald Trump approved a 30 percent tariff on solar panels and a 20 percent tariff on washing machines. The move was not received well by Mainland China, which produces 65 percent of the world's solar modules.

This article is based on the Institute's *Report on Improving Corporate Governance in Hong Kong*, prepared by Syren Johnstone and Say H Goo, and follows on from the last article on the importance of independent non-executive directors. It focuses on how board evaluations can improve board effectiveness

Board evaluation – a tool for developing a high performing board

The corporate board plays a vital role in leading an organization. Among other actions, the board ensures the organization is protecting its shareholders' assets, sets management business targets and missions and monitors their progress. In order to ensure that the board is effectively undertaking these roles, many organizations undertake board evaluations – recognizing it as an essential component of good governance. In many jurisdictions, regular board evaluations are a listings requirement, often on a comply-or-explain basis, although it is generally not required to make the evaluation results public.

Board evaluations

An article from *CSj*, the monthly journal of The Hong Kong Institute of Chartered Secretaries, entitled *Board evaluation: is Hong Kong missing out?* describes the purpose of a board evaluation as to enable "the board and management to identify potential areas for improvement in the way the board operates." Through evaluating its performance and culture, a board can determine whether it is fit for purpose, and is sufficiently diverse.

The EY Center for Board Matters listed eight strategic benefits of evaluations:

- Providing clarity on the roles of directors and the board
- Strengthening understanding of the operations of the organization
- Identifying gaps in knowledge and expertise related to the risks and opportunities for the organization
- Developing deeper understanding of sector dynamics
- Testing the board's understanding of key shareholders' views on the organization's strategy and governance
- Identifying process management improvements
- Fostering alignment and agreement on purpose and strategy
- Protecting against weak team dynamics

There are two types of board evaluation:

- **Internal board evaluation:** typically led by the board chair or a committee chair (e.g. the governance committee). This allows for the evaluator's knowledge of the board and its activities to be utilized – however self-evaluation may be less critical than that of external evaluators and the evaluator may lack assessment expertise.
- **External board evaluation:** involving third-party evaluators who bring objectivity to the process. They can also provide more structure and rigour and benchmark against other boards, which the third-party has previously evaluated. External evaluations are increasing in global markets.

Board evaluations in Hong Kong

Hong Kong currently has recommended board evaluations as a best practice for listed companies. The guidance does not however include any detail as to what the evaluation should consider; makes no disclosure requirement; and has no element for external assistance in evaluating the board.

Although the Stock Exchange of Hong Kong has undertaken two consultations on formal requirements for board evaluations, there has been no follow up. Reasons for the lack of progress include concerns regarding confidentiality of board activities, financial and time costs, and the ownership of companies – with many Hong Kong-listed companies being state-owned or family-controlled.

As such, formal board evaluations are not standard practice in Hong Kong. According to a report produced by the global executive search and leadership consulting firm, Spencer Stuart, the *Hong Kong Board Index 2015,* just 21 percent of Hang Seng Composite LargeCap Index companies undertook formal board evaluations. Notable examples include the MTR Corporation, which undertook an evaluation in 2014 when faced with "intense public concern and criticism," as it was described in the *Independent Board Committee on the Express Rail Link Project.*

Board evaluations overseas

In the United Kingdom, formal board evaluations were recommended by the 2009 Walker Review. The Corporate Governance Code requires that board evaluations should be undertaken annually – with the findings disclosed. The evaluation must be led by non-executive directors and include evaluating the board's performance against other requirements under the code including (i) the skills, experience, independence and company knowledge of the board; (ii) how the board works together as a unit; and (iii) other factors relevant to the board's effectiveness.

In the United States, although board evaluations are not required by the corporate governance code, the system of corporate governance is board-centric with State and Federal laws protecting the interests of shareholders. In fact, the Spencer Stuart report notes that "98 percent of S&P 500 boards conduct some type of evaluation and 33 percent conduct an evaluation on the full board, committees and directors."

In Singapore, the corporate governance code requires a formal annual assessment of the effectiveness of the board, but board evaluations are often compromised in government-linked and family-owned companies – where the independence of board members charged with undertaking evaluations, namely members of nominating committee, is open to question.

Recommendations for Hong Kong

The *Report on Improving Corporate Governance in Hong Kon*g recommends that board evaluation requirements should be more stringent, and strengthened from being a recommended best practice to a comply-or-explain provision within the Corporate Governance Code. Annual evaluations should be undertaken, based on publicly agreed terms of reference and involving independent non-executive directors or third-party evaluators. It also proposes the introduction of a new recommended best practice, modelled on the U.K. approach, concerning how the evaluation exercise should be undertaken.

Effective board operations are vital to the long-term success of an organization – shouldn't shareholders be assured that boards are regularly evaluating their performance and taking follow-up action where necessary?

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Tara Joseph has more than 15 years experience working in Asia as a foreign correspondent for Reuters. She has served as president of the Hong Kong Foreign Correspondents' Club in Hong Kong twice.

TRADING OPTIONS

Tara Joseph, President of the American Chamber of Commerce in Hong Kong, tells George W. Russell about the state of the bilateral relationship in an era of Trump, tariffs and tension

Photography by Juliet Shayne Lui

As Beijing and Washington raise the stakes in the biggest trade war since the 1930s, Tara Joseph, President of the American Chamber of Commerce, or as it's often shortened to "AmCham", in Hong Kong, is not taking sides.

"We have a very obvious mission and the first priority is to foster trade between the United States and Hong Kong – and China – and we also really seek to enhance Hong Kong's stature as an international business centre," she says.

Relations between the two powers have rarely been frostier in recent history, but Joseph, a former journalist, believes the best way to serve her membership is to be non-political and non-partisan.

Interviewed at the chamber's headquarters in – appropriately enough – the Bank of America Tower in Central, Joseph believes that Hong Kong and the U.S. have many common interests and are both keen to maintain strong trade ties.

"My role is very much about promoting the chamber's core values, which are the rule of law, ethical and responsible business practices and transparency and also importantly the free flow of information."

Information has become a precious commodity as trade tensions have worsened, with the uncertain

The American Chamber of Commerce in Hong Kong (AmCham) held its 2018 China Conference this month. Highlighting the key takeaway, AmCham President Tara Joseph said: "This conference confirms that technology and innovation form a critical part of U.S.-China relations just as technology surges as a critical part of business development in every sector of the economy. Navigating the cross current between explosive business growth and political friction is a major challenge."

timing and strength of each tit-for-tat round of tariffs over the past few months. "I think the state of play is uncertainty and concern," Joseph says of the trade dispute.

"For us, what is of the utmost importance is really being open and in discussion constantly with our members to learn about how trade tensions or a trade war could be affecting them. We want to make sure we're discussing it in the open and people feel they can come to the chamber to learn about it."

The AmCham President says one key thing is keeping communication lines open. "We maintain an open and very frequent dialogue with the Hong Kong government to ensure that the U.S.-Hong Kong trade relationship remains solid," she says.

The trade war has come at a time when the U.S.-Hong Kong relationship was booming. The U.S. is Hong Kong's second-largest trading partner in the world, after Mainland China. Goods imported from the U.S. accounted for US$27 billion, or 5 percent, of Hong Kong's total imports in 2016.

For its part, Hong Kong is the U.S.'s 20th-largest trading partner. It is, however, the third-largest market for U.S. wine exports. "It's a very active trade relationship across a wide variety of business sectors ranging from logistics to financial services to education and food and beverage," says Joseph.

Hong Kong's difference

Joseph joined AmCham Hong Kong from Thomson Reuters, the international media company, in February 2017. "It was just after Chinese New Year, which was a month after Donald Trump was inaugurated as U.S. President," she recalls.

"It's very important for us to separate out Mainland China and what makes Hong Kong unique, specifically in Washington D.C."

"We have 1,500 members and more than 20-plus committees and a board of 25 people," she adds. "Most of our members are American, but we're actually also 30 percent international, and we have people in sectors ranging from financial services to education to logistics to entrepreneurs who just moved to the city, so it's a very varied and dynamic group."

The chamber has a full public schedule of seminars, workshops and conferences. "But we also have closed-door meetings where we will get senior executives together with Hong Kong government officials to really have a candid discussion and dialogue," she says.

"We also go to Washington at least once a year where we advocate about Hong Kong and what's important in our view between the U.S. and Hong Kong and why Hong Kong is so important for the American business community."

AmCham is also a prolific publisher. "We do a lot of advocacy," she says. "We write a submission to the [Hong Kong] Chief Executive every year and we will also write white papers to the government on issues that are important to our community."

While the U.S. differentiates between Hong Kong and Mainland China for the purposes of economics and trade through the United States-Hong Kong Policy Act, one continuing role is to explain to the U.S. government and business communities about "one country, two systems."

"We've really spent a lot of time this year trying to remind people in the States of what Hong Kong is, what makes Hong Kong unique, and how the business environment here is different," says Joseph. "It would be easy if you're somewhere overseas to not understand 'one country, two systems'," she adds. "It's an unusual set up. We have to really drive home the fact that, for example, [the Mainland's] cyber-security law is not being enacted here in Hong Kong.

"It's very important for us to separate out Mainland China and what makes Hong Kong unique, specifically in Washington D.C., because we were very concerned that the trade war would just be one big bus that would roll over in China and Hong Kong would get caught in that wake."

Mainland matters

Joseph also differentiates between her organization and its Mainland counterpart, the American Chamber of Commerce in the People's Republic of China, which has offices in Beijing and Shanghai. "There is no mother ship, there is no headquarters for American chambers of commerce," she says. "We're friendly with the others but we're independent in structure. That said, we do co-operate a lot: we have a lot of companies that are active in both places and I do like to hear what AmCham China is saying about the U.S.-China trade relationship."

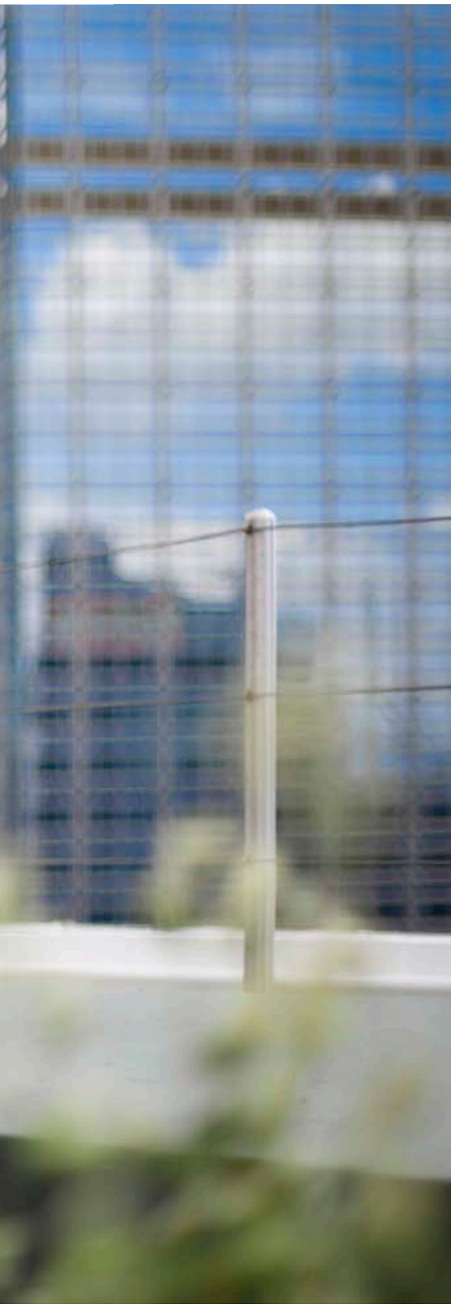
Joseph has been President of AmCham Hong Kong since February 2017. As part of her role, she is responsible for the leadership and operations of the organization.

AmCham Hong Kong has its own Mainland China affairs department, which liaises with Mainland authorities. "We have our own department because we have so many events that are based around China," says Joseph. "For example, we have our annual China conference and we have a 'Beijing door knock' every year for which we organize a delegation to visit officials in Beijing. We are hugely active in terms of government relationships. Our China affairs group builds bridges and relationships in Beijing and in the Greater Bay Area."

AmCham has paid close attention to the Greater Bay Area initiative, which seeks to more closely integrate Hong Kong and Macau with nine municipalities in Guangdong province (see article *A Greater Role in the Greater Bay Area* on page 26 for more on the initiative). "I think we started quite early in terms of building thought leadership from different sectors about what are the key issues to make this initiative successful," says Joseph.

"We go and visit the Greater Bay Area, we talk to various authorities about it, we go back to our committees and ask them what are the important areas of development – Is it labour? Is it the tax regime? – and then we have a sense of what's really important for a business community."

The Belt and Road initiative – China's plan to build trade infrastructure between Asia and Europe – is also of great interest. "We ask what opportunities are



there for non-Chinese companies to be involved in Belt and Road, what are the rules, are the contracts fair and open and how can we advocate to make sure those things are in place."

Joseph stresses the collective nature of AmCham. "We will advocate as a group," she says. "It's not just one company saying, 'I want to be involved in Belt and Road' – it's actually U.S. industry saying we're interested in being involved in Belt and Road and if there are concerns about it to voice it as one organization."

Rhetoric and reality

For Joseph and her organization, it's not just explaining Hong Kong and Mainland China to an audience back home. They also find themselves deciphering the U.S. to their hosts. "It is my job to explain things like investment, and I feel like my role is separating out the rhetoric and the reality," she says.

One critical change in U.S. attitudes has centred around the Committee on Foreign Investment in the United States (CFIUS), an interagency panel that reviews the possible effects on national security of acquisitions of U.S. corporations by foreign companies.

"We've held several sessions this year to demystify CFIUS," says Joseph. "The idea is to provide information about what sectors are open for business and it's actually a small percentage of areas in the U.S. that are not open, or are less open to business than they used to be."

CFIUS hit headlines in March when its advice led to the cancellation of a proposed US$117 billion takeover of Qualcomm, a U.S. mobile-telecoms equipment maker, by Broadcom, a Singapore-based rival with substantial Chinese interests.

Investors from Mainland China feared that was just the beginning, and doors would close on a wide range of potential acquisitions, but Joseph disagrees. "There are many other areas that really are open for business – textiles, industrial machinery, equipment and tools, food and tobacco, hotels and tourism – so it's not overarching," she says.

A delegation from the U.S. House of Representatives' financial services committee recently visited Hong Kong to explain CFIUS reform. "It gave our members an opportunity to really speak their mind to congressional authorities about how they're viewing it and what their concerns are in Hong Kong about it."

Joseph hopes to be an oasis of calm as the trade war continues to rage around her. She insists that while AmCham members are not pounding down her door over concerns about tariffs, there is an increasing watchful eye on how it may affect their business plans. "People are working to get on with business in Hong Kong and the key issue is really defining Hong Kong as a strategic hub for business," she says. "Right now their concerns are really with Hong Kong in maintaining its competitiveness by breaking down long established silos in government which many say have led to an inability to cope with the changes brought on by technology."

Hong Kong should reinforce its core values to enhance the U.S.-Hong Kong trade relationship, she says. "Many companies, if they sign contracts and do business in English, they like to be here. The tax regime, the infrastructure and the connectedness to international capital markets are all things that make Hong Kong a very important place."

"It is my job to explain things like investment, and I feel like my role is separating out the rhetoric and the reality."

Christopher Arnold and
Wassim Khrouf

Head of Small and Medium Enterprises/ Small and Medium Practices and Research at International Federation of Accountants (IFAC), and IFAC SMP Committee Member, on three ways for firms to cope with pressure to lower fees

How to effectively manage fee pressure

Pressure to lower fees has consistently appeared as one of the top challenges facing small- and medium-sized practices (SMPs). In each of the last three IFAC Global SMP Surveys, it has featured in the top four challenges – and it is expected to be the same in 2018. Various factors will affect fees charged, including the type of service provided and circumstances of the entity (e.g. size and issue complexity). Countries may also have different legislation or regulation specific to certain services.

Negotiating higher fees: demonstrating and communicating value

When entering into fee discussions, it is important to focus on value and meeting the needs of the client, not on price. The price should only be the last element of any negotiation. Value must be first – if there is no value, then there is no price.

Three key factors for firms to effectively manage fee pressure relate to the client relationship, the quality and expertise provided and utilizing technology.

Client relationship

Research indicates that SMPs' relationships with their clients are often long-term, personal and based on trust. Practitioners have an in-depth knowledge and understanding of their clients and are, therefore, well-positioned to provide a range of services. Knowing the client means understanding their business affairs, what motivates them and listening to their pain points, vision and long-term plans for the business and its needs. One of the best ways is through a client questionnaire. The IFAC *Guide to Practice Management for SMPs* includes examples that can be used as a basis.

SMPs have a clear advantage by being able to build strong relationships with clients at the partner level, which should be used as a selling point and one of the reasons supporting the fee charged. When a level of relationship is achieved, price becomes less of an issue because the client appreciates they are getting sound advice from their trusted adviser.

The art of conversation – that is, the need for clear and regular communication – is vital to a successful, and ongoing, relationship. It helps build a closer relationship, increase client retention and efficiencies. Staff satisfaction can also increase by developing relationships with client contacts.

This relationship is two-way. Firms need to spend time proactively assessing and managing their clients. For example, clients can be classified based on the fee level, number of services utilized, payment of bills, recovery rates and enjoyment working with key staff. This ranking may allow the firm to focus its efforts on the most valuable clients and consider special pricing arrangements that apply in different circumstances. For instance, pricing structures could vary depending on the service type or number. For example, preferential pricing or a staged payment plan may be considered for clients who utilize a large number of services. In addition, at times it may be that the price isn't wrong, the customer is!

Quality and expertise

The service provided has to be high quality. This should be reflected throughout clients' experience with a firm – from the initial proposal, onsite interactions with all staff and final service delivery. Ultimately, if the client finds value in what is delivered, they will be willing to pay the appropriate fee. Practitioners need to leverage trust and promote relevance.

Given client's focus on output and results, the time a firm spends delivering a service may not be relevant. It is widely recognized that time-based billing is an outdated approach for certain services and value pricing is increasingly popular. But it remains important for practitioners to maintain documentation (e.g. timesheets, checklists, reviews) in order to support the level of fees charged. The information may also be useful for future service proposals.

Practitioners need to demonstrate their expertise, which can be a differentiating factor for the fee level charged. By developing sector- or industry-specific knowledge and expertise, practitioners can provide real added-value to their clients. For example, when presenting figures in a client meeting (rather than just through e-mail), the firm could provide publicly available benchmarking information and utilize the data differently with graphics to provide real insights that help distinguish the service provided.

Utilizing technology: faster delivery of services, better cost management

- Arranging virtual meetings with clients to facilitate face-to-face communication without travel or additional time costs.
- Investing in the cloud to facilitate access to client records 24/7.
- Purchasing and training staff on data visualization tools.
- Designating a high-performing junior staff member to follow tech trends and inform the firm about possible future opportunities and challenges.
- Establishing virtual offices to enable staff to work remotely and effectively manage their work-life balance.

This article originally appeared on the IFAC Global Knowledge Gateway. Visit the Gateway to find additional content on a variety of topics related to the accountancy profession.

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(Left to right, back) Sarah Chan, William Chan (left to right, front) Daniel Hui, Lorraine Cheung and Catherine Tsang

A unified Greater Bay Area, linking key Mainland cities to Hong Kong and Macau, could enhance the competitiveness of the region, but we need better collaboration between the cities involved. *A Plus* hosts a roundtable discussion featuring tax experts to look at the harmonization issues and what the initiative means for Hong Kong

Photography by Calvin Sit

A greater role in the Greater Bay Area

The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) initiative, set out by the Mainland China government, aims to create an economic powerhouse in the region, but there are a multitude of challenges in implementing the scheme.

Exact details of the initiative are not yet known, with the GBA blueprint expected to be issued in late September or early October. But in essence, the scheme's "9+2" concept aims to develop nine cities in Guangdong province, plus Hong Kong and Macau, into a world-class city cluster that will play a leading role in innovation, advanced manufacturing, trade, finance and logistics.

It is modelled on similar initiatives in other countries, such as Japan's Greater Tokyo Area, the United States' San Francisco Bay Area and New York metropolitan area.

Each city in the GBA will have its own sectorial focus. Sarah Chan, Partner, Tax and Business Advisory Services at Deloitte China, explains that the initiative is expected to lead to synergies between the different cities, as well as greater integration, through business cooperation and increased mobility of both goods and people. This will be facilitated by enhanced transport infrastructure, including new airports, highways, transport hubs and the high-speed rail link. "The government has set targets, one of which is that in the long run the GBA will outrate other bay areas," she says.

Hong Kong's role

Already, the 11 cities pack a significant economic punch, with the combined GBA producing a gross domestic product (GDP) of US$1.4 trillion in 2016, equivalent to

(Left to right) Catherine Tsang, Sarah Chan and Daniel Hui

"Hong Kong faces land supply constraints, which hinders the development of a comparably-sized ecosystem"

William Chan and Lorraine Cheung

12 percent of Mainland China's economy, although it is home to only 5 percent of the country's population.

The initiative is expected to accelerate the transformation the region is already undergoing, with highly polluting industries forced to shut down, and being replaced with high-end, high valued-added manufacturing activities.

The GBA cities are also expected to compete with each other to become centres for various industries – Shenzhen, for example, has already established itself as a premier high-tech innovation hub and research and development (R&D) centre.

Lorraine Cheung, Partner, China Tax and Business Advisory Services at EY, points out that while the Hong Kong government is promoting R&D and offering a match funding scheme, given the size of Hong Kong, competing with Shenzhen in this area could be difficult. "If companies are considering whether to put their production in Hong Kong or Shenzhen, when they look at the whole supply chain, they will likely choose Shenzhen – as the supply chain ecosystem is better developed. Hong Kong faces land supply constraints, which hinders the development of a comparably-sized ecosystem," she says.

William Chan, Tax Partner at Grant Thornton, agrees that the high rental cost in Hong Kong makes it unattractive for businesses to relocate their manufacturing activities.

But Catherine Tsang, Partner, Tax and China Business Advisory Services at PwC, suggests this fact means Hong Kong companies are well-placed to benefit from the enhanced cooperation with other GBA cities, as well as the improved transport links under the initiative. She adds that for its part, Hong Kong should promote its financial services sector and strong professional services expertise. "Companies could register their intellectual property in Hong Kong because the city has a good legal system for that. They could then use other services here like accounting and valuation."

In fact, Hong Kong's Financial Secretary Paul Chan recently said at the World Economic Forum's Annual Meeting of the New Champions that, as an international finance centre with the best professional services in the GBA, Hong Kong could become the premier listing and fundraising location for Mainland enterprises. He added that Hong Kong would also look to complement other cities in the GBA by building an international information and technology hub, with a particularly focus on developing FinTech.

Tax challenges

While the GBA initiative has the potential to create significant opportunities for Hong Kong, uncertainties remain about how tax issues will be handled.

Sarah Chan explains that, unlike other bay areas, the GBA will involve three different legal jurisdictions and three different tax policies. Falling under the Mainland's tax regime is unlikely to appeal to either businesses or people from Hong Kong. Corporate income tax in China is charged at 25 percent, compared with 16.5 percent in Hong Kong, while personal income tax is also higher on the Mainland with a top rate of 45 percent, compared with one of 17 percent in Hong Kong. William Chan adds: "Under the recently revised China Individual Income Tax (IIT) Law, if people move from Hong Kong to the GBA to live or work they could end up paying tax on their worldwide income. Whereas, they may only need to pay salaries tax on Hong Kong income if they live in Hong Kong."

Daniel Hui, Partner, China Tax at KPMG, explains that there is a preferential tax policy for Hong Kong people living and working in the Qianhai free trade zone, under which certain eligible individuals would pay tax in China, but receive a rebate to give an effective income tax rate of 15 percent. "We would like to see a similar proposal for Hong Kong people working in the GBA," he says. But he adds that this would require a subsidiary from the Chinese government, and the profession would like to see further developments on this area.

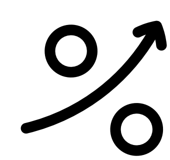
Value-added tax (VAT) could be another challenge. Hong Kong and Macau do not have VAT, but in Mainland China VAT is charged at 16 percent on many goods and services – creating issues for companies that have bases in both Hong Kong and the other GBA cities in the Mainland.

Cheung explains that companies may produce a prototype in Hong Kong, but when they ship it to Shenzhen, they have to pay customs duty and VAT. When the first stage of manufacturing is completed, and they need further high value processing, they may ship it back to Hong Kong. "There are VAT and duty levies all along the way. Alignment of tax and duties is needed for the free flow of goods, and to make the GBA a cohesive supply chain for corporations," she says.

In Mainland China there is a tax credit system for VAT but this is only available to entities that have VAT registration, and Hong Kong companies cannot currently go through this registration process.

William Chan says: "There does not necessarily have to be an exemption, but if Hong Kong companies are allowed to register as VAT payers in Mainland China, these entities can get into the VAT system and qualify for refunds or credit offsets. He adds that even if companies did not face the VAT issue, having to clear customs hampers innovation between Hong Kong and GBA cities because it takes time.

It is also currently unclear if any tax incentives will be introduced to encourage the mobility of people and companies within the GBA. William



In 2016, the combined gross domestic product of the 11 cities in the Greater Bay Area reached US$1.4 trillion, or 12 percent of the national economy, even though it is home to only 5 percent of the Mainland's population.

By 2030, the region is expected to play a leading role in advanced manufacturing, innovation, logistics, trade and finance.

"It is not just about going into China, but also attracting talent to Hong Kong as a financial centre."

Chan says: "At the moment, no tax policy has been issued. The reason for this may be that they are not going to use tax policy as a driver. Like the San Francisco Bay Area, they may build infrastructure to get people to congregate there, rather than give a financial incentive to attract people to relocate to build business."

Workforce mobility

Aside tax issues, other factors may inhibit Hong Kong people from working in the GBA.

Tsang says the recent removal of the work permit requirement for people from Hong Kong taking up jobs in the Mainland is a step in the right direction.

The introduction of a new identity card, giving Hong Kong citizens access to a wide range of public services, such as education and healthcare, while they are residents in the Mainland, should also help. But Sarah Chan points out that it is still not easy for people from Hong Kong to make the transition: "You need to get a card from the local government, and you need to live there for half a year before you are qualified to get a card. There is no fast track."

Tsang also points out that the 183-day rule will be used to determine tax residency under the newly passed IIT law. This complicates matters, as it would mean people who qualified for the resident card would also be classified as tax residents and be liable for tax on their worldwide income. "Because of the amendment to the IIT law, people may be wary of applying for the cards," Tsang says.

Government incentives

Assuming that these issues are resolved, people in Hong Kong may still need some form of incentive from the Hong Kong government to encourage them to move to the GBA.

The transport infrastructure, including the new high-speed rail link, will mean the majority of the GBA cities are within one to one-and-a-half hours of Hong Kong. This has led to suggestions that dormitory villages could be created in the GBA,

where property is cheaper, for Hong Kong residents, as well as encouraging retirees to live in Mainland China.

But, alongside the promise of cheaper housing, incentives are likely to be needed to encourage Hong Kong people to relocate, such as portable social welfare benefits for the elderly, and some form of rental or interest deductions for those living in Mainland cities but still working in Hong Kong.

Tsang thinks young people in particular may need inducements, such as internships, so that they can experience in person the benefits that the opportunities within the GBA offers. "Youngsters from Hong Kong need to leave their comfort zone and be comfortable to mingle with their peers in Mainland China. To help, the issue of Mandarin not being their first language would also need to be overcome."

There is expected to be greater mobility from Macau, which is more focused on the leisure industry, making it easier for young people to move to the Mainland to work in theme parks, Hui says. Tsang adds that it is also important to remember that mobility within the GBA should be two-way. "It is not just about going into China, but also attracting talent to Hong Kong as a financial centre," she says.

Recognition of professional services

Another potential stumbling block is the lack of recognition in the Mainland of professional services qualifications from Hong Kong.

Some Hong Kong professionals cannot practice in China due to the licensing limitation. For instance, finance professionals are not able to give real-time advice to companies unless they come to Hong Kong. Likewise, foreign lawyers are not allowed to advise on Mainland law in China.

William Chan says: "Hong Kong financial services and certain professional services providers are not allowed to provide their services in China, and that prevents us from providing services there. Further market liberation in the Mainland would lead to easier market access by the Hong Kong professionals." Some sort of mutual recognition scheme for qualifications is needed, he adds.

But Tsang points out: "If we are asking for this status of mutual recognition, we must be prepared to open up the Hong Kong market to qualified Mainland professionals. It cannot be just one way."

Overall, Hui thinks that in order for the initiative to be a success, the ease of doing businesses between Hong Kong and other GBA cities needs to be increased. "You need to leverage this initiative, so that when Hong Kong people and businesses go into China, it is easier and less costly," he says. "There are some things you can't change, like the tax law, but the ease of doing business you can."

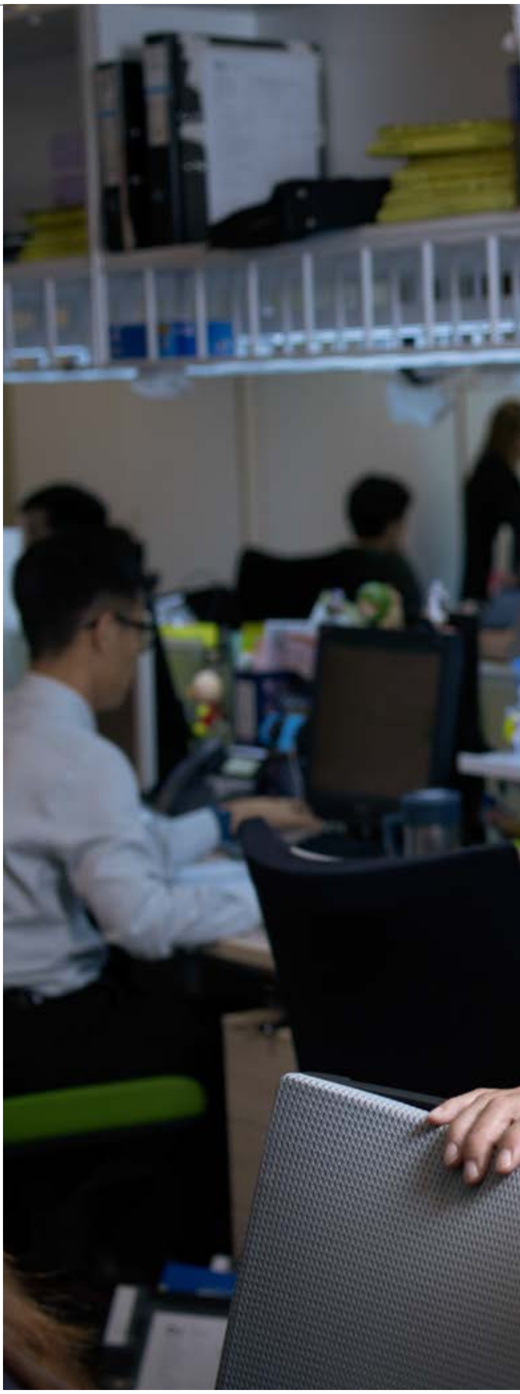
Tsang agrees: "The GBA definitely has a lot of opportunities for Hong Kong people in the long run but they need to break down the hurdles."

LATIN TAKE OVER

CW CPA is gaining a foothold in Latin America and Spain. Kate Whitehead finds out what inspired its co-founder, Thomas Wong, to think outside the box, and start one of Hong Kong's most unique CPA firms

Photography by Calvin Sit

Thomas Wong (centre) with his colleagues (from left to right) Marant Caballero, Ramon Ruiz, Irene Leung, Luz Martinez, Delilah Li, Toby Wong, and Victor Herrera.



It was the bluesy guitar melodies of Latin Rock musician Carlos Santana that helped shape Thomas Wong's way of thinking. "I grew up listening to Santana. Listening to foreign music as a teenager made me very international," says Wong, Partner at Hong Kong-based medium-sized firm CW CPA, and a Hong Kong Institute of CPAs member.

Another inspiration for him was the book *Blue Ocean Strategy* by W. Chan Kim and Renée Mauborgne, which provides insights on how businesses can create an offering so differentiated that it makes competitors irrelevant. "I want to stay away from the familiar. I don't want to compete with my peers. This is the idea behind a Blue Ocean Strategy," he says.

Wong read the book in 2006, the same year he decided to break into a market that many people were steering well clear of. That year, he set up the Latin American and Spanish business advisory department at a professional advisory firm where he was a founding partner. It all started with a high school friend who introduced him to a Colombian-British business owner who ran a retail shop. Wong helped the man set up his operation in Hong Kong and later, over a long lunch, was introduced to some of his Latin American friends, including the daughter of the Colombian Consul-General. "As an accountant you can't just sit in the office, you have to go out to look for opportunities and see where you can meet some good friends," he says.

The Latin American market became his niche area. In 2011, he began taking Spanish lessons – a Colombian teacher would tutor him in his office – and is now comfortable speaking Spanish in informal contexts.

At CW CPA, which Wong founded with another partner, Rosanna Choi, Wong's team offers services including audit and other assurance, tax, corporate secretarial and business process outsourcing. The company logo is a nod to his love of green apples and his belief in the Blue Ocean Strategy.

In less than two years after CW CPA's establishment, the firm has opened offices in Hong Kong, Shenzhen, Guangzhou and Shanghai and has footprints in Barcelona, London and recently Bogotá. The firm has now grown to around 100 staff members. To date, over 70 percent of its clients are overseas, including Latin America.

Localized services

These days, Wong manages to practice his Spanish regularly thanks to his staff. He has employed three Mexicans in the Shenzhen office, and the Hong Kong office has Brazilian and Portuguese staff working on business development. Together, they make up CW CPA's Latin Department, which was set up in view of Latin America and Spain increasing trade with Mainland China. The team offers services to Spanish and Portuguese-speaking clients who want to set foot in the Mainland via Hong Kong.

"This year, I have hired one more Latin staff member who would report duty within the next few months. Our firm's revenue from Latin American clients achieved strong year-on-year growth this year. I am very thankful to my helpful colleagues who have supported me in expanding our network and developing the markets," he says.

With the help of the department, which generates over 30 percent of the firm's revenue, CW CPA has an extensive network with members of the Latin and Spanish community around the world, including in Hong Kong. The network covers a range of organizations including consulates, trade promotion offices, chambers, banks, law

"You are not just dealing with numbers, you have to use your connections to solve their business problems when they ask you."

firms and others.

Increasingly, he says, the firm is being seen in Latin America as the go-to firm for entry into Mainland China. Recently, it helped a large Brazilian IT company and a Mexican fashion group to establish their operations in the Mainland. He notes that he is the "go-to man" for newbies in Mainland China, giving them advice on everything from finding decoration workers to doctors. "You are not just dealing with numbers, you have to use your connections to solve their business problems when they ask you. Our clients put their entire trust in us." says Wong.

The biggest change he has seen recently is the huge surge of interest in the Greater Bay Area (GBA). Wong says he was promoting the GBA even before Premier Li Keqiang announced in the annual government report in March 2017 that the authorities were going ahead with the initiative. "I foresaw GBA becoming one of the leading economic regions and one of the largest and most sophisticated markets for consumer goods and business services. The development of GBA will act as a gateway for Latin American and overseas clients looking to expand their businesses into the Mainland and also for Chinese companies to reach out to overseas countries," he explains. "An example will be a great collaborative opportunity and synergy between Brazil's expertise in software development and the Mainland's in hardware manufacturing."

The firm saw a growing number of enquiries from Latin American companies, he adds. "They were considering using Hong Kong to set foot in Mainland China by setting up a holding company in Hong Kong in between their headquarters and their wholly foreign-owned enterprise in the Mainland, to enjoy comparative advantages and benefits such as the Mainland and Hong Kong Closer Economic Partnership Arrangement, tax benefits and more," says Wong. "Our firm's expertise in accounting and consulting allows us to provide overseas companies a total solution for both Hong Kong and Mainland China – two wins."

Wong also notes that as the Mainland has ushered in a new era of trade relations with Latin America in line with its new growth model based on innovation and domestic consumption, new opportunities are already looming on the horizon for Latin American companies to provide a wider range of goods and services. "Nowadays, more of our Latin American clients are supplying agricultural products like fruits to Chinese customers," he says.

CW CPA's Latin Department serves more than 200 clients from Latin America and Spain

He believes many people's preconceived ideas about Latin America are keeping them from entering the market. "People are sceptical, and they still don't believe in this market," he says. "Due to language and cultural barriers, many people think it is impossible for someone Chinese, like me, to have fruitful business with Latin American people without a huge amount of resources. In fact, many Latin American businessmen speak English very well and are well-educated. Many clients and I listen to the same songs and support the same football teams. We share many values in common."

Four-hour lunches

He credits a good part of his success to having a strong team who he trusts and empowers. "I have an able lieutenant, Delilah Li. She knows my marketing concept, knows how to lead a business in four areas – sales, delivery, marketing and fee collection. She leads the team through what I've been inspiring her, and she delegates to the Latin staff. Delegation is very important," says Wong.

Avoiding getting involved in the practical day-to-day details frees him up to look at the big picture and nurture client relationships. Doing business in Latin America and Spain successfully comes down to having good relationships, says Wong. "Handling a business with Latin America requires relationship building. It is crucial to earn their trust over time, by showing them you are capable of being their support to do business in Mainland China and Hong Kong. Relationship building takes time but allows me to make a lot of friends from those countries."

Respecting and adapting to the culture in Latin America is vital, he notes, which can sometimes mean embracing a four-hour lunch or not eating dinner until 9 p.m., yet he's happy to adapt and is still curious about the world – two traits he encourages in young CPAs. "I encourage young accountants to be more open and visionary and set their sights on overseas as well as Mainland China. Be a business advisor. They need to be IT-equipped and to value honesty," says Wong.

He highlights that the handling of time has been challenging for him. "In terms of meetings and appointments, a little lateness is expected. Arriving on time or earlier than the schedule might show that we are too eager, which can be interpreted as something negative, he says. "Challenges are always there: different languages, different rules, different mindsets and different practices. Yet there is one way we can overcome them – mutual respect."

Chasing the dream

It was Wong's high school friend Elton Chiu, three years his senior, who advised him to follow his lead and study accounting at the Hong Kong Polytechnic University. After graduating in the early 1980s, he spent two years working for the government in the Treasury Department and then a couple of years for a privately-owned garment company before deciding to sit for the CPA exam. "Two people really inspired me – my class teacher at Hong Kong Polytechnic University, Doug Oxley, and my friend Patrick Tam, who suggested I sit the Institute's exam," says Wong.

He says he had always dreams of starting his own business. "I had a dream of setting up my own business and offering career opportunities to people," he says. "When I graduated with an accounting degree, I did not have enough money and experience to start a firm. Luckily, before I set up my firm, I was able to accumulate sufficient money through two previous jobs."

Wong is a keen marathon runner and manages to find time for a run even during the most intense business trips. "My most memorable time is running in the early morning every day when I am in Latin America and Spain. I enjoy embracing new environments and my business ideas mostly come from the one hour when I am running in the morning."

In the late 1990s, Wong took up opportunities to travel to Mainland China, organized by the Institute and the Hong Kong Trade Development Council, and he urges young CPAs to seek similar opportunities to broaden their outlook. "A lot of accountants still want to sit in the office and micromanage. That is still a problem unless you can convince them to listen to some rock music," laughs Wong.

Wong was also Chairman of the Americas Committee of the Hong Kong General Chamber of Commerce.

Cherie Lau attained the gold award in the QP final exam. She is an Accountant at KPMG.

THE FUTURE

Since launching in 1999, over 20,000 graduates have completed the Institute's renowned Qualification Programme. Four young and bright top students tell Jeremy Chan what surprised them about the experience and how it was unlike any course they had ever done

Photography by Calvin Sit

"I remember going to the first few workshops and feeling quite lost by the end," says Cherie Lau, Accountant at KPMG. Though challenged at the beginning, she quickly buckled down, and as a result was given the gold award prize from the Institute for gaining top marks in the final exam in June. Getting the gold, she says, was no fluke.

Determination, hard work and perseverance would ultimately pave the road to achieving top exam marks for Lau, and other top Qualification Programme (QP) students. Lau, who has a degree in Economics from University College London, completed the three-month conversion programme, and joined the QP in November 2017. Later that month, she started working in KPMG's audit division.

She keeps her QP notes handy, even at work. "When I do audit engagements and look at revenues, I refer back to my notes as well as the resources at the firm – especially when it comes to standards," she explains, adding how she was able to apply her new knowledge on Hong Kong Financial Reporting Standard (HKFRS) 9 *Financial Instruments*. "My supervisor at work asked me to look into it, and since I had references from the workshop, I was able to look at how the standard would affect financial instruments and check whether clients were adopting it correctly."

"I would study for over 12 hours a day, starting quite early in the morning – I did that for three weeks straight."

Composed of four modules – Module A financial reporting, Module B corporate financing, Module C business assurance, Module D taxation, as well as a final exam, the QP is a prerequisite for those who wish to become CPAs. It also includes two eight-hour workshops which take place at the end of each module, providing opportunities for students to apply their understanding in practical ways through group discussions, presentations and role play. The top three candidates in each examination session of the final exams are awarded with gold, silver and bronze plaques, and cash prizes of up to HK$10,000. Students who achieve the highest mark in any exam session of a module are awarded with a cash prize of HK$6,000 and the student who passes the final exam with the highest aggregate marks across all modules is awarded the Institute of Chartered Accountants in England and Wales Prize of HK$5,000. All prize-winning students are awarded with a certificate of merit.

Having completed all four modules, Lau found the module on taxation challenging. Discussing concepts such as assessable income, deductible expenses and learning how to fill out tax returns, facilitators encouraged group discussions and for the students to come to conclusions themselves, says Lau.

> **"Most questions weren't so straightforward, so leading my team to tackle these questions within a time limit really helped enhance my analytical and critical thinking skills."**

"During case studies, they wouldn't tell you which tax expenses were deductible, so we would have to argue using cases whether certain ones were or weren't – I have found this to be extremely applicable in my work."

Doing well in the final exam required a work ethic she had never seen in herself before, and believes it was the only way forward. "I would study for over 12 hours a day, starting quite early in the morning – I did that for three weeks straight," says Lau. To do so, she combined the five days of study leave granted by the firm with the rest of her annual leave before sitting the final exam.

Lau feels the course helped her skills in communication and leadership, and feels more confident in her abilities as an accountant. "I used to be super shy – especially when I spoke to my managers – but now I'm much more confident. I know where to find resources, what standards to look for, and how I'm supposed to perform an audit."

With her brand new set of skills, she looks forward to the road ahead. "I'll likely stay in the financial industry. I definitely have a lot to learn here."

Addressing issues early

Yee Chun Chan, Audit Staff at accounting firm P. L. Au & Co., attained the top mark in the financial reporting module exam.

After graduating from the Hong Kong Polytechnic University in 2017, Chan completed the module in June, and like Lau feels he got more than what he expected from the course's workshops. "I thought it was going to be a case of going to class, sitting down, and just listening," he says. Instead, the 24 students in a workshop form four groups of six to tackle various case studies suggested by their facilitators, on issues relating to tax competition, accounting profits and taxable assessable profits. "We need to discuss each case using professional judgment, as some items may be taxable, and some might not be deductible," he explains.

Chan especially enjoyed solving problems with his group mates. "We were all given the chance to lead our team during case questions," he adds. "When we presented our answers to the workshop facilitators, they usually critiqued them or asked follow-up questions such as 'how did you come up with that answer?' or 'why did you think that answer was right?'"

By having a facilitator to address many of his and his group mates' questions, Chan believes that he was able to learn faster, and also avoid making mistakes in the future. "Most questions weren't so straightforward, so leading my team to tackle these questions within a time limit really helped enhance my analytical and critical thinking skills."

Despite gaining top marks in the financial reporting module exam, he found it to be the most difficult, especially the section on consolidation. "There are certain adjustments that we need to do as we build consolidated companies as a whole, for example intra-group balances and transactions, and going from a financial statement to a consolidated financial statement. It is concepts like these I learnt in the module which are most applicable to my job," he says.

For those students who are nervous about the module exams, Chan has a few tips. "Take a bit of time to go through all the questions, and make a mental note on how long to spend on each one," he hints. "Try not to spend too long on one question – answer all the questions you know first, as that will get you the most marks."

With hopes of one day becoming a tax advisor, he eagerly anticipates sitting the taxation module this December. "I look forward to someday advising clients on tax planning, legal tax deduction and minimizing their tax liabilities," he says. "It will be the next page in my career."

Yee Chun Chan achieved top marks for Module A financial reporting. He is Audit Staff at P. L. Au & Co.

Tammy Law scored top marks for Module B, corporate financing. She is an Accountant at EY

Learning as a team

Tammy Law, Accountant at EY and top scorer in Module B, corporate financing, also feels more confident in her skills after the programme. “The QP is tailor-made for accountants and auditors,” she explains. “I wouldn’t say that what I learnt in university wasn't useful, but the QP is much more applicable to my work now – I would say that what I learnt at university laid the foundation for the QP.”

Law did a double major at the University of Hong Kong, one in International Business and Global Management and one in Wealth Management. Working in the audit department, she says it was the goal of many graduates at work to enrol in the programme, which she did so in January. Completing both corporate financing and taxation modules in June, she commends the modules’ practicality, and also applies what she learns at work. “I found Module B to be very useful on a daily basis. It includes future-looking concepts such as modelling, budgeting, and valuation,” she says.

She also agrees the most difficult, yet most rewarding, module so far is taxation. “We learnt about corporate tax, which is very useful as we need to look at companies’ tax conditions when auditing,” she explains.

Law says role-playing with fellow group mates was her favourite part of the course, and recalls an exercise during the taxation workshop. “One person played the part of the Inland Revenue Department, and one was the tax representative of a company,” she says. “We really learnt from it, and it was so fun.”

She often teams up with her peers, and encourages fellow students to do the same. “Try to form a study group with your group mates,” she advises. “That way, you can communicate with each other on what you have studied, difficulties you encountered, and solve problems together before and after classes.”

By regularly communicating with each other using WhatsApp and even scheduling conference calls on Skype, they were able to help each other overcome challenges even while studying at home alone. In the end, the merits of the study group went beyond her expectations. “There were five people in my study group – I was the top student for Module B, and my friend was the top student for Module D! So we were very happy and surprised.”

She looks forward to doing her best on the two modules she has left before the final exam, and celebrating the day she becomes a qualified CPA. “I want to have a big party with all my group mates once we have all passed the exams,” she says with a smile.

“Try to form a study group with your group mates. That way, you can communicate with each other on what you have studied, difficulties you encountered, and solve problems together before and after classes.”

"Standing on a stage before an audience to present my opinions and views using technical terms and with professional knowledge, especially with limited preparation time, really improved my communication skills."

Setting new standards

Vincent Chow took mostly science-related subjects in secondary school, but accounting was always at the back of his mind. He went on to study accounting at the Chinese University of Hong Kong. After graduating in December 2016, he joined KPMG the following month, and knew enrolling in the QP would be the next logical step. "As I was exploring and studying different fields of accounting and finance, I started to build an interest in it – that's why I chose to become a CPA." Attaining the silver award upon completion of the final exam was a milestone for Chow, who then brought that experience with him in his role in government services.

Joining the Hong Kong Post Office as Accounting Officer in July, Chow says he needs to keep abreast of new and developing standards, and credits Module A, financial reporting, for helping him. "I am responsible for revenue and billing in our financial services division, and I need to cooperate with other divisions to improve accounting processes, systems, and controls," he says. "There are a lot of accounting standards to comply with and many new standards have been developed in recent years, such as HKFRS 9, 15 and 16. Being able to study accounting standards in depth in Module A was very beneficial."

When it came to advising clients on HKFRS 15 *Revenue from Contracts with Customers*, Chow frequently referred back to his QP notes back when he worked in a Big Four firm. "We also needed to consider the impact of new accounting standards when performing audits for our clients," he says. "I was able to give advice on HKFRS 15, as its five-step model to recognize revenue from customer contracts will impact my clients' upcoming financial years," Chow says. "So, I researched on how to prepare financial statements and notes in accordance with the accounting standards regarding the timing and nature of revenue, and passed my findings to managers for consideration."

Chow believes the taxation module's end-of-workshop presentations helped him develop leadership skills, and upped his confidence in presenting. "I don't have many opportunities to give such presentations at work," Chow says. "Standing on a stage before an audience to present my opinions and views using technical terms and with professional knowledge, especially with limited preparation time, really improved my communication skills."

The QP also changed him on a personal level. "Before the workshop, I was a bit self-centred, and I didn't like listening to other people's views or opinions," he recalls, adding that he has also become a better team player and leader. "Since I had to work in a team, it was important for me to listen and to also accept other people's opinions – and to be a leader, you have to understand your teammates' strengths and weaknesses and consider how they can complement one another to accomplish different kinds of tasks."

Still revelling in the sense of achievement his silver award has brought him, he looks forward to the road ahead, and also feels it is time to relax. "I've had to use my annual leaves for study leave up until now – and I can't wait to use them for a *real* holiday," he laughs.

Vincent Chow was given the silver award for his high marks in the final exam. He is an Accounting Officer at the Hong Kong Post Office.

Welcome to Success

QP Graduates – June 2018 Session

The Institute is pleased to announce that 1,068 QP candidates successfully completed the Qualification Programme in the June 2018 Session. The list of graduates is as below.

AU YEUNG, Chi Kwan
AU, Hiu Yan
AU, Hoi Yan
AU, Melvin Benzi
AU, Tsz Kin
AU, Wai Yip
AU, Yee Man, Laura
AU-YEUNG, Chi Wa
AU-YEUNG, Man Chun
AU-YEUNG, Tsz Wai Moon
CAI, Yuanyuan
CHAINANI, Mohit
CHAK, Yat Ham
CHAN, Cheong Chi
CHAN, Cheuk Yin
CHAN, Cheuk Yin
CHAN, Chi San
CHAN, Chin Yip
CHAN, Chor Yan
CHAN, Chui Ting
CHAN, Chun Ho
CHAN, Chun Ho, Henry
CHAN, Chun Kei
CHAN, Chun Kit
CHAN, Chun Long, Eddie
CHAN, Chun Ming
CHAN, Chung Ho
CHAN, Chung Kay, Samuel
CHAN, Chung Yan
CHAN, Chung Yan, Giulia
CHAN, Hang Ting
CHAN, Hei Man
CHAN, Hey Yin, Brian
CHAN, Hing Chak
CHAN, Hing Shing
CHAN, Hiu Lam
CHAN, Hiu Tung
CHAN, Hiu Wa, Lydia
CHAN, Hiu Yin
CHAN, Ho Ying
CHAN, Hoi Ki
CHAN, Hoi Mei
CHAN, Hoi Yee
CHAN, Hon Leung
CHAN, Io Lon
CHAN, Jason Chun Ho
CHAN, Ka Chun
CHAN, Ka Kin
CHAN, Ka Lin
CHAN, Ka Po
CHAN, Ka Wai
CHAN, Ka Wing
CHAN, Ka Yan
CHAN, Ka Yu
CHAN, Ka Yu
CHAN, Kam Kau
CHAN, Kam Shui
CHAN, Kam Shun
CHAN, Kin Sang
CHAN, Lai Ying
CHAN, Lok Pan
CHAN, Lok Tung, Dilys
CHAN, Man Kuen
CHAN, Man Wa
CHAN, Ngo Yin
CHAN, On Yi, Stephanie
CHAN, Pak Kin
CHAN, Pui Kwan
CHAN, Randel Matisse
CHAN, Sek Kwan
CHAN, Shun Nok
CHAN, Sin Hang
CHAN, Sin Yee
CHAN, Siu Hin
CHAN, Siu Lun
CHAN, Sze Wing, Vanicia
CHAN, Sze Yan, Lily
CHAN, Tai Long
CHAN, Tsz Chung
CHAN, Tsz Fung
CHAN, Tsz Fung
CHAN, Tsz Ho
CHAN, Tsz Wai
CHAN, Vincent Ming Chung
CHAN, Wing Tung, Nicole
CHAN, Wun Lam, William
CHAN, Yan Tung, Michelle
CHAN, Yat Nam
CHAN, Yin Chi, Michael
CHAN, Yin Wai
CHAN, Ying Tak
CHAN, Ying Tung
CHAN, Yu Lee
CHAN, Yu Lui
CHAN, Yui Wing
CHAN, Yuk Shan
CHAN, Yung
CHANG, Tai Yin
CHARM, Oi Tung, Ruby
CHAU, Chi Kit
CHAU, Chun Hei
CHAU, Ka Chun
CHAU, Man Yick, Patrick
CHAU, Wing Ki, Vicky
CHAU, Yu Wun
CHAU, Yuk Ha
CHEN, Beili
CHEN, Hiu Yan
CHEN, Peikun
CHEN, Pengyuan
CHEN, Qianjun
CHEN, Qinkeer
CHEN, Sin Ying
CHEN, Siyu
CHEN, Xi
CHEN, Ying
CHENG, Chi Hong
CHENG, Chun Kin
CHENG, Chun Kit
CHENG, Hang Shun
CHENG, Hao
CHENG, Ho Wun
CHENG, Hoi Tan
CHENG, Ka Ching
CHENG, Ka Man
CHENG, Kam Pui, Valerie
CHENG, Kwok Kuen
CHENG, Lai Ming, Nicola
CHENG, Lok Hang
CHENG, Man Kuen
CHENG, Sai Wa
CHENG, Sze Long
CHENG, Tak Shing, Timothy
CHENG, Tsz Haang
CHENG, Wing Ho
CHENG, Yip Ching
CHENG, Yiu Chung
CHENG, Yu Yui
CHENG, Yuen Ying
CHENG, Yuk Wah
CHEUK, Kei In
CHEUK, Sze Wai
CHEUNG, Chi Fung
CHEUNG, Chi Pang
CHEUNG, Ching Tin
CHEUNG, Ching Yan
CHEUNG, Chui Yi
CHEUNG, Chun Yiu
CHEUNG, Coleman
CHEUNG, Gary Shu Kan
CHEUNG, Hei Tung
CHEUNG, Hiu Fung
CHEUNG, Ka Man
CHEUNG, Ka Pang
CHEUNG, Ka Yan
CHEUNG, Ka Yiu
CHEUNG, Kar Hay, Herbie
CHEUNG, Kin Chung
CHEUNG, Man Yin
CHEUNG, Nga Ting
CHEUNG, Pui Kan
CHEUNG, Pui Man
CHEUNG, Shuk Ching
CHEUNG, Tak Hang
CHEUNG, Tik Hei
CHEUNG, Tung In, Margaret
CHEUNG, Wai Yu
CHEUNG, Wan Chun
CHEUNG, Wing Hei
CHEUNG, Wing Man
CHEUNG, Yim Yi
CHEUNG, Yiu Kwan
CHEUNG, Yuen Lam
CHI, Chun Hoi
CHIN, Arnold Wai Lok
CHING, Ka Hei
CHING, Kai Yung
CHIU, Chi Kuan
CHIU, Ho Hang
CHIU, Ka Wai
CHIU, Man Lai
CHIU, Pak Lok
CHIU, Sin Hang
CHO, Sin Man
CHOI, Chung Ming
CHOI, Hon Lam, Ambrose
CHOI, Ko Wai
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LEE, Kit Ting

Hong Kong's
CPA Qualification
香港會計師專業資格

LEE, Kwun In, Jessica
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LEE, Pok Wah
LEE, Sau Kwan
LEE, Scarlet
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Why specific anti-tax avoidance provision may make tax deductions on purchase costs of intellectual property rights difficult

Jo An Yee, **Patrick Kwong** and **Kathy Kun** look at why section 16EC(4)(b) of the Inland Revenue Ordinance attracts controversy

The Inland Revenue (Amendment) (No. 2) Bill 2018 has recently been enacted to grant tax deductions for three new types of intellectual property rights (IPRs), namely (i) performer's economic right; (ii) protected layout-design (topography) right; and (iii) protected plant variety right. These new tax deductions work within the existing regime comprising two main provisions of the Inland Revenue Ordinance (IRO), namely:

- Section 16E, which is not affected by the new law, and grants a 100 percent tax write-off in the year of purchase for costs of patent rights and rights to know-how where specified conditions are satisfied; and
- Section 16EA, which after the enactment of the new law effective from Year of Assessment 2018/19, will extend its coverage from registered trademarks, copyrights, and registered designs to include the three new types of IPRs detailed above. Under section 16EA, tax deductions for capital expenditure incurred on the purchase of such IPRs will generally be spread over five successive years in equal instalments, beginning in the year of purchase.

Tax deductions otherwise granted under both sections 16E and 16EA will however be denied when the specific anti-avoidance provisions contained in section 16EC apply. Of all the specific anti-avoidance provisions in section 16EC, the one that has attracted the most controversy from tax professionals is contained in section 16EC(4)(b).

The controversial section

Under section 16EC(4)(b), no tax deduction will be allowed under sections 16E or 16EA if the relevant IPR is wholly- or principally-used outside Hong Kong by a person other than the taxpayer under the term of a license (regardless of whether royalties are charged).

Section 16EC(4)(b) is in fact modelled on section 39E(1)(b)(i) of the IRO. The latter section has been controversially invoked by the Inland Revenue Department (IRD) to deny tax depreciation allowances on capital expenditure incurred by Hong Kong taxpayers in respect of plant or machinery provided on a rent-free basis by such taxpayers. Typically, these recipients of rent-free capital goods are contract manufacturers of the taxpayers based in Mainland China pursuant to import processing arrangements. Such denial will occur regardless of whether the profits derived by the taxpayers from the trading of goods manufactured under the import processing arrangements are fully tax-chargeable in Hong Kong.

Similar to section 39E(1)(b)(i), the controversies arising from the application of section 16EC(4)(b) are that it could affect many normal business arrangements that are not tax driven or structured with a view to avoiding tax. The following is one such typical example.

Example

A Hong Kong company purchases, from a third party, a layout-design (topography) right for certain integrated circuits (IC Right) for HK$8 million with the IC Right protected under the law of Mainland China. Furthermore, the company then procures an unrelated contract manufacturer in Mainland China under import processing arrangement to produce goods on behalf of the company, and in the process allows the contract manufacturer to use the IC Right royalty free. If the goods incorporating the IC Right were then sold by the company to customers in Hong Kong, the profits derived would generally be fully taxable in Hong Kong being Hong Kong-sourced income.

The tax position taken by the IRD

In the above example, the IRD would consider that the Hong Kong company has effectively granted the contract manufacturer in Mainland China (being a person other than the Hong Kong company as the taxpayer) a license for the use of the IC Right wholly or principally outside Hong Kong. As such, under section 16EC(4)(b), the IRD will deny the Hong Kong company's claim for a tax deduction of the purchase cost of the IC Right of HK$8 million. This would be the case even though the profits derived by the Hong Kong company from the trading of the goods manufactured by the contract manufacturer in Mainland China were fully chargeable tax in Hong Kong.

Lobbying efforts to remove or amend section 16EC(4)(b)

When the new law was a legislative bill, a number of professional bodies made submissions to the Bills Committee formed to scrutinize the bill that section 16EC(4)(b) should be removed or amended such that tax deductions would not be denied in situations as illustrated by the above example.

In response, the government indicated that section 16EC(4)(b) was first introduced into the IRO in 2011 when section 16EA was originally enacted, and that this legislative exercise only sought to extend the coverage of section 16EA to include the three new types of IPRs, the terms of section 16EC(4)(b) being unaffected by the bill. As such, the government considered that this legislation was not an appropriate platform for examining the issue of whether section 16EC(4)(b) should be removed or amended.

Nonetheless, the government also indicated that in the light of potential economic integration arising within the Greater Bay Area, the Secretary for Financial Services and the Treasury was re-examining both the section 16EC(4)(b) and section 39E(1)(b)(i) issues as raised by the submissions.

The scope of the secretary's re-examination would include exploring feasible options to address the concerns raised by the submissions, while also enabling Hong Kong to comply with the principles of tax symmetry and transfer pricing.

Principles of tax symmetry and transfer pricing referred to by the government

Tax symmetry

Using the above example for illustration, for tax symmetry the issue is whether the granting of the use of the IC Right by the taxpayer to the contract manufacturer royalty-free is for the purpose of generating (i) the manufacturing profits of the contract manufacturer in Mainland China which are not chargeable to tax in Hong Kong; or (ii) the trading profits of the taxpayer which are fully chargeable to tax in Hong Kong.

If the argument in (i) prevails, the principle of tax symmetry would require the IRD to disallow the tax deduction for the purchase cost of the IC Right under section 16EC(4)(b). Whereas if the argument in (ii) prevails, there may be no reason for applying section 16EC(4)(b) to disallow the tax deduction otherwise obtainable by the taxpayer under section 16EA.

Transfer pricing

Regarding transfer pricing, the issue is whether the taxpayer in the above example should charge the contract manufacturer royalties for the use of the IC Right, given that (i) the IC Right is used by the contract manufacturer solely for the production of goods for the account of the taxpayer; and (ii) any royalties so charged would likely be re-charged by contract manufacturer back to the taxpayer by way of a corresponding equivalent increase in the price of the goods charged by the contract manufacturer.

The concerns of the government are that if royalties have to be charged under the principle of transfer pricing, such royalty income of the taxpayer would normally be non-taxable, being sourced offshore Hong Kong given that the IC Right in question would be used in Mainland China. As such, the purchase cost of the IC Right would also need to be disallowed under the principle of tax symmetry referred to above.

In addition, the government is also apparently concerned that if tax deduction under section 16EA for the purchase cost of an IPR is granted in Hong Kong in situations like the above example, Hong Kong could be accused by overseas tax authorities of encouraging Hong Kong taxpayers not to charge their overseas contract manufacturers royalties. By so doing, Hong Kong taxpayers could then be argued to be avoiding their overseas withholding tax liabilities in respect of what would otherwise have been their royalty income, potentially undermining the taxing rights of the overseas tax authorities.

Commentary

In a recent case ATG v The Comptroller of Income Tax (CIT) [2011], heard by the Singapore Income Tax Board of Review, the tribunal ruled that plant and machinery consigned by a Singapore taxpayer to their contract manufacturers located outside of Singapore was for the purpose of generating the trading profits of the taxpayer which were taxable in Singapore, rather than generating the manufacturing profits of the contract manufacturers which were not taxable in Singapore.

Understandably, following the case, the Inland Revenue Authority of Singapore has since agreed to grant tax depreciation allowances to Singapore taxpayers in respect of plant and machinery consigned by Singapore taxpayers to their contract manufacturers located outside of Singapore.

The outcome of this case lends support therefore to the argument that in the above example, the taxpayer's grant of the right to use the IC Right to the contract manufacturer is for the purpose of generating the trading profits of the taxpayer which are taxable in Hong Kong, rather than generating the non-Hong Kong taxable manufacturing profits of the contract manufacturer in Mainland China.

Thus, it appears that if Hong Kong is to follow the Singapore approach, section 16EC(4)(b) could be removed or suitably amended such that the tax deduction otherwise obtainable under section 16EA would not be denied, whilst at the same time not affecting Hong Kong's desire to comply with the principle of tax symmetry.

Regarding the principle of transfer pricing, the issue appears to be academic given that any royalties charged by the taxpayer to the contract manufacturer in the above example would likely be offset by a corresponding increase in the prices of goods charged by the contract manufacturer to the taxpayer. In other words, it is unlikely that there would be any net additional payment or receipt between the taxpayer and the contract manufacturer – regardless of whether royalties are charged or not. The respective net profits or losses of the two parties in each jurisdiction would remain the same.

Nonetheless, the issue may still be whether such a single payment between the taxpayer and the contract manufacturer could or should be "unbundled" to the two constituent elements discussed. That is, to identify the income source and overseas withholding tax liabilities of the "royalty income element" of the taxpayer "embedded" in the payment.

In this regard, there are views that, unlike an offsetting of two separate and distinct transactions, such an unbundling of the payment may not be warranted, given that the use of the IC Right in the example is an integral part of the single transaction relating to the supply of goods.

In addition, some tax practitioners in Hong Kong are of the view that, for Hong Kong tax purposes, the source of the "royalty income element" of the payment, if any exists, could also be regarded as being located in Hong Kong, given that it stemmed from part of the operations undertaken in Hong Kong by the taxpayer for securing the supply of goods traded in Hong Kong.

Also unlike granting tax incentives to attract geographically mobile businesses to Hong Kong, the decision of whether to grant a tax deduction for the purchase cost of an IPR used outside Hong Kong pursuant to a contract manufacturing arrangement, is purely a matter of how Hong Kong interprets and administers its own tax law.

As such, there would be no question of Hong Kong engaging in harmful tax practices by its application and interpretation of section 16EC(4)(b). Nor could the taxing rights of overseas tax authorities be undermined if the royalty income, actual or imputed, could be regarded as being sourced in the overseas jurisdictions concerned based on their own domestic tax laws.

Further to such views, granting a tax deduction under sections 16E or 16EA for the purchase cost of an IPR used outside Hong Kong pursuant to a contract manufacturing arrangement would not be against the principles of tax symmetry and transfer pricing.

Now that the new law has been enacted, taxpayers await with keen interest how the Secretary for Financial Services and the Treasury will take the above into consideration when he explores feasible options to resolve the controversial issues surrounding sections 16EC(4)(b) and 39E(1)(b).

Jo An Yee is Tax Partner, **Patrick Kwong** is Executive Director and **Kathy Kun** is Tax Senior Manager at EY Tax Services

TechWatch 191

The latest standards and technical developments

Meeting minutes

Ethics Committee
Summary of the 238th meeting of the Ethics Committee is now available.

Hong Kong Insurance Implementation Support Group
The Hong Kong Insurance Implementation Support Group's 26 July meeting summary and updated submission log are now available.

Local updates

Roundtable discussions on financial instruments
The Institute will host a series of roundtable discussions to share the latest thinking on how financial instruments with characteristics of equity will be reported in the future. Preparers, analysts, investors and other users of financial reports are invited to join the roundtable to share their views or concerns on the way issuers report these types of instruments today and the latest thinking:

- **Preparers of financial reports:** 30 October
- **Analyst, investors and other users of financial reports:** 1 November

Email *outreachhk@hkicpa.org.hk* your name, organization and contact number if you want to have a say and share your views. An education session on the proposals will be provided before each of the discussion.

If you cannot attend the roundtable but would like to share and discuss the topic, please email *eky@hkicpa.org.hk*.

Feedback Statement on the Post-implementation Review of Accounting Guideline 5 *Merger Accounting for Common Control Combinations*
In 2016, the Institute's Financial Reporting Standards Committee (FRSC) issued a Request for Information to conduct a post-implementation review (PIR) of the Accounting Guideline 5 *Merger Accounting for Common Control Combinations*.

After consolidating the feedback collected from the PIR, the Institute published the feedback statement which includes an analysis of the feedback received and the possible next steps the FRSC may take. All the feedback from comment letters received and summaries of outreach meetings held have also been published.

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

International updates

IFRS updates

- New IFRS 17 *Insurance Contracts* webcast
- Summary of the June 2018 joint Capital Markets Advisory Council and Global Preparers Forum meeting
- Education modules to support IFRS for SMEs
- IASB chairman spoke about goodwill accounting at a Tokyo conference
- Lecture delivered by the IASB board member, Ann Tarca, on the role of accounting information and its relevance

Professional accountants in business

Business models of the future
ACCA has recently published a report entitled *Business models of the future: systems, convergence and characteristics*, which explores what lies behind business model innovation. The report identifies 12 characteristics that business models of the future are putting together in different combinations – and their "plug and play" nature – which is driving business model design today.

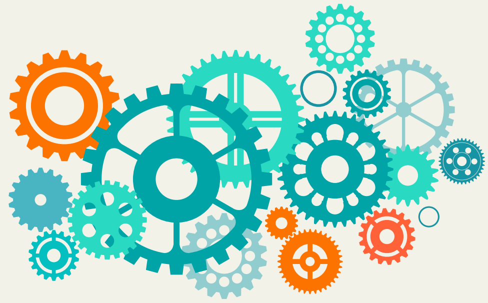
The report also assesses today's socio-economic landscape against which value creation takes place. It outlines a set of approaches for professional accountants to consider when they look to apply business model of the future characteristics to their own work and build new value for their organizations, now and into the future.

Corporate finance

Institute comments on HKEX consultation on backdoor listing
The Institute issued a submission responding to Hong Kong Exchanges and Clearing's (HKEX) proposals to tighten the backdoor listing rules and tackle shell activities in order to maintain market quality and reputation. While we support the general direction of HKEX's proposals, the submission suggests that some greater flexibility may be called for. Among the considerations raised by the Institute are:

- To avoid tightening the rules in a way that could restrict issuers' normal business activities, which might include disposing of/changing some business lines for the long-term benefit of shareholders
- Not to preclude the possibility of smaller "growth" and "new economy" companies expanding via acquisitions
- To allow sufficient flexibility to facilitate the rescue of issuers in financial difficulty through the injection of new assets
- To provide further explanation and clarification of certain terms and concepts and how they are to be applied

HKEX consultation on review structure for listing committee decisions
On 10 August, HKEX released a consultation paper to seek views on proposals to revise the review structure for listing committee decisions. This represents the HKEX's response to the Joint



Consultation with the Securities and Futures Commission (SFC), concluded in September 2017, on *Proposed Enhancements to the HKEX's Decision-Making and Governance Structure for Listing Regulation*. One of the conclusions was that HKEX would conduct a separate consultation on replacing the listing committees with independent committee(s) and simplifying the review structure. The current proposals aim to enhance the transparency, accountability and consistency of the decision-making process. A summary of the proposals is set out in the press release.

The deadline for responding to the consultation paper is 12 October.

HKEX consultation conclusion on exempting aircraft leasing activities from notifiable transaction rules

The HKEX published Consultation Conclusions on its proposed exemption for qualifying aircraft leasing activities on 17 August.

Qualified aircraft leasing activities carried out by qualified aircraft leasing lessors, subject to certain criteria and conditions, are not required to fulfil specific disclosure and/or shareholders' approval requirements applicable to notifiable transactions. Instead, alternative disclosure by way of announcements in their interim/annual reports will be required. The exemption addresses the practical difficulties that relevant issuers have in complying with the notifiable transaction requirements, in relation to transactions that are carried out in their ordinary and usual course of businesses. A summary of the amendments is set out in the press release.

The amendments will be effective from 15 October.

SFC consults on proposed guidelines for securities margin financing activities

On 17 August, the SFC launched a consultation on proposals to implement and adjust the guidelines for securities margin financing (SMF) activities, to enhance the risk management practices for margin lending and increase SMF brokers' ability to overcome the stock market volatility. In particular, the SFC proposes to strengthen controls and implement new guidelines to avoid excessive leverage and reduce concentration risk in both securities collateral and individual margin clients.

The deadline for responding to the consultation paper is 18 October.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Double taxation agreement with Saudi Arabia enters into force
- New advance ruling case published
- Gazettal of a legal notice to effect the change in the rate of interest payable on Tax Reserve Certificates
- The government's plan to expand the list of reportable jurisdictions for the implementation of automatic exchange of financial account information
- List of qualifying debt instruments

Institute's recent tax submissions

The Institute's Taxation Faculty has responded to the proposed legislative amendments on adoption of fair value accounting for financial instruments for tax reporting.

Legislation and other initiatives

Anti-money laundering/counter-terrorist financing notices

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

- Government notice (extraordinary) 48: An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- An updated list of relevant persons and entities under the United Nations Sanctions (Democratic People's Republic of Korea) Regulation.
- 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.

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 money laundering or terrorist financing risks and vulnerabilities in the Hong Kong market.

Please refer to the full version of TechWatch 191, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

After hours

Book review Life and everything Let's get fiscal

Book review

China's next generation

Title: **Young China: How the Restless Generation Will Change Their Country and the World**
Author: **Zak Dychtwald** Publisher: **St. Martin's Press**

For a group of 300 million people, China's millennial generation is surprisingly anonymous. They're often only children – thanks to Beijing's family planning policies – and they probably don't have Facebook or Twitter accounts – thanks to Beijing's censorship policies – but aside from that, they are a mystery to the outside world.

Zak Dychtwald, a Columbia University-educated American from the same generation, tries to fill in some of the blanks with *Young China: How the Restless Generation Will Change Their Country and the World.* This is not a scholarly book – it's short on data and interpretation – but it is a fascinating anecdotal insight into the minds of young Chinese.

The book starts on an unpromising note as the author recounts his eyes-wide-open introduction to life in China, echoing every young expatriate who moves there. He also claims that everyone speaks English in Hong Kong, that China has 300 million English speakers, or that Shenzhen was a backwater before it became a special economic zone.

But then Dychtwald lets his interview subjects drive the narrative. Dozens of people tell the author their story, and while the process lacks scientific rigour the sheer weight of their voices builds up an illuminating picture.

Some of the stereotypes ring true in Dychtwald's encounters – the academic strivers, the techies, the hard-core party supporters, the forever-young, the prematurely old – but they all have stories and are happy to bear witness to how they got to where they are, or didn't.

For example, Bella is obsessed with her exam scores and spends 80 hours a week in the Suzhou University library; Lulu wants to get rich quickly; Jiangguo is a five-year-old already wired for success. Personal issues are also covered: Wendy got involved with an older, married man; William is gay but wants to honour his parents by adopting a child.

They are universal human tales, albeit middle and upper-class tales – there are no grocers, police, construction workers or doormen in Dychtwald's orbit – but they are told with Chinese characteristics:

heavy on education, success and doing the right thing by one's family, peers and country.

And many of Dychtwald's subjects are acutely aware of China's international reputation. "China does a terrible job of presenting ourselves to the world," a young man named Tom tells him.

"'With the image of China in Europe, America, and the West, we just look like brainwashed young people, 1984-style governance, hair in queues…' His voice trailed off. 'Look, man,' he continued, placing his glass on the table. 'As long as you don't make all of us out to be organ-stealing prostitutes, we're making progress.'"

National pride, Dychtwald argues, has an impact on identity. As China continues to modernize, there is this jostling to try to figure out what it means to be Chinese on the world stage. As they grow wealthier, do these young people just want to emulate their international peers in terms of style, thinking, what's cool and what's not?

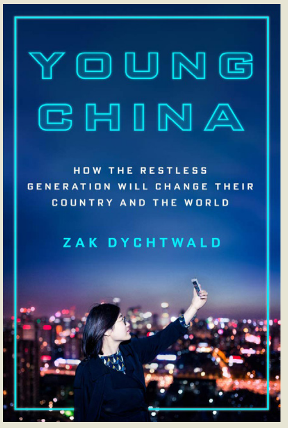
Dychtwald doesn't really answer the subtitle of the book. There's not a lot to suggest how the young generation will change China, let alone the rest of the world. They don't want to think of themselves and their culture as inferior, so theirs is a national experimenting that's going on with what it means to be cool with Chinese characteristics in the modern world.

Of course, China has allowed foreign influence to dictate its modern identity. Dychtwald visits Suzhou Industrial Park, a mix of new residential apartment buildings and factory headquarters. Singapore was the inspiration for this low-rise, high-technology space. Deng Xiaoping had been impressed with Singapore's social order and tight political system.

Dychtwald has made a creditable attempt to make sense of China's cohort of young adults, and attempted to make sense – as a foreign outsider – of their aspirations and anxieties.

He's an enthusiastic coach, fluent in Mandarin and, at the age of 28, a seven-year veteran of this huge and fascinating country. In explaining China, Dychtwald adds his own cautious, self-deprecating rider. "While it's impossible to understand China if you don't speak Chinese, knowing the language does not mean you automatically understand China."

Author interview: Zak Dychtwald



Zak Dychtwald is in Hong Kong partly to promote his book but partly because being an unofficial cataloguer of China's young generation means spending half the year in China and half the year in his California birthplace.

"I pursued the topic of China's youth, particularly the post-1990 generation, because it felt like a massively important, impactful group of young people who were getting little to no representation in the English language," he tells *A Plus*.

Dychtwald points out older generations in China were largely motivated by subsistence questions. "How do we get enough of the necessities to take care of our family? How do we get out of poverty and away from being concerned over needs?" He says the younger generation has inherited their parents' concern over practical issues. "Many of them are on that same mission towards financial stability that their parents began."

But China's youth are also far more concerned with "wants" rather than "needs". "Not just the 'I want an iPhone, car, and apartment' sort of wants, though those do loom large, but the 'who do I want to be? What do I want for myself, my family, my country?' sort of wants as well."

China's youth, he says, do strive beyond material wealth. A generation of single children are living away from home in Chinese cities, with a feeling they don't belong. "That can't be solved with more money," says Dychtwald. "This young generation seeks out their own tribes – be they about food, hobby-orientated clubs, or brand-centred identities – aimed at making them feel like they are part of a truly massive whole."

He says young Chinese are not politically apathetic but "issues like voting still rank low on the priority list for this young generation, particularly as they see how little millennials around the world seem to value this political right on voting days."

China's youth do care, he adds, about the ability to speak their mind without retribution, the ability to access and share information, but authoritarian rule from Beijing has not driven them to an extreme reaction. "There definitely has been increased agitation in the past year and a half, especially among the upper crust with international experience," says Dychtwald.

Dychtwald intends to focus on his Young China Group think tank. "I want to act as a bridge between China and the world," he says. "My goal is to make China approachable. I am seeking funding for large-scale research… to compare the emerging millennial mindset in China with that of millennials around the world."

Music

SOUNDS OF THE DEEP

Between Music, the world's first underwater five-piece band from Denmark, is bringing their concert "AquaSonic" to Hong Kong. The quintet will perform fully submerged in glass water tanks, and will take listeners on a sonic journey with their music and clever use of instruments. Specially designed to be played underwater, the band's instruments include a carbon-fibre violin, hurdy-gurdy rotacorda, crystallaphone and hydraulophone, producing haunting yet beautifully crafted songs.

Dates: 26-27 October, 8:00 p.m. - 10:00 p.m., 28 October, 3:00 p.m. - 5:00 p.m.
Venue: Sha Tin Town Hall Auditorium, 1 Yuen Wo Road, Sha Tin, New Territories
Ticket price: HK$160, HK$240, HK$320, HK$420
Website: *www.urbtix.hk*

Drink

BOTTOMS UP

The city's biggest annual craft beer festival Beertopia is back for its seventh year in a row, bringing over 250 different craft beers and serving craft beer-inspired cocktails from around the world. With organizers expecting over 10,000 attendees, the two-day event will also feature over 20 food trucks and restaurants, as well as live bands and DJs. There will also be an area where participants and revellers alike can play drinking games such as beer pong.

Dates: 5-6 October
Venue: Central Harbourfront, 9 Lung Wo Road, Central
Ticket price: from HK$250 (refer to website)
Website: *www.beertopiahk.com*

Exhibition

SHE'S GOT SOLE

A diverse selection of both ancient and modern women's footwear is currently on display at Pacific Place. Shoes: Pleasure and Pain, a one-month installation, part of the Victoria and Albert Museum's exhibition tour, and showcases over 140 pairs of shoes from across the world. Some date back to the 14th century, such as the Egyptian sandals dressed in gold leaves, bound feet lotus shoes, as well as luxury shoes such as Cinderella slippers by Swarovski, and elaborate footwear from Salvatore Ferragamo, Alexander McQueen and Zaha Hadid. The exhibition will also feature 14 pairs of shoes from Hong Kong actress and singer Karen Mok's personal collection.

Dates: 27 September-28 October
Venue: Garden Court, LG1, Pacific Place, 88 Queensway, Admiralty


Tenderloin with horseradish


Tartar "lamb in dill"

Eat

NORDIC WONDERS

Dig into world-class Nordic cuisine right in the heart of Hong Kong at the The Flying Elk. Having recently opened in July, the renowned Stockholm establishment is the concept of three-Michelin-star chef Björn Frantzén, and is the chef's second restaurant in the city after Frantzén's Kitchen. The Flying Elk represents a culmination of European and Nordic food, with delicious starters such as its open sandwich made with pork cheeks, red cabbage and wild mushrooms, appetizers such as tartar "lamb in dill" served with dill mayonnaise, vinegar pickled root crops and onions and entrées such as tenderloin and smoked heart of beef with horseradish, celeraic remoulade and pickled mustard seeds.

Address: 2/F, Wyndham Mansion, 32 Wyndham Street, Central
Opening hours: Monday - Sunday, 5:00 p.m. - 10:30 p.m.
Website: *www.theflyingelk.com/hk*

The world's hardest exams

Hong Kong's humorist delves into the world of tough tests and pub quizzes

Eight thousand candidates sat an accounting exam in India recently – and all of them failed. The passing rate for the 8,000 applicant-test for 80 government accountant jobs in Goa was precisely zero, the *Times of India* reported on 22 August.

This columnist loves stories like that – not because I am a twisted evil person who delights in the suffering of others – or not only because of that – but because there's always a story behind the story.

Did the teachers fail to teach? Did the students fail to study? Did the exam-setters accidentally drop the entire box of exam papers off the side of a ferryboat while trying to juggle an extra-long masala dosa? (My money's on the third option).

India, unlike Hong Kong, proudly claims its accounting exams are almost impossibly hard – as if that's a good thing. (Our recruitment and training process totally failed again! Hooray! Break out the mango lassi!)

A comprehensive analysis (quick Google search) of super-hard exams around the world shows that many of the ghastliest tests are in the financial sector.

It seems that members of the professional classes (legal term "Suits") love tough challenges – but only in left brain (logical, number-based) ways, as I found out to my cost.

This columnist was invited to be master of ceremonies at a charity quiz night for Suits at Exchange Square in Central. The applicants were ultra-competitive so the atmosphere became heavy and deadly serious.

To lighten the mood, we added an extra round – each team was asked to entertain the rest of the crowd by performing a song from a musical. This brought joy and laughter back to the evening – but triggered complaints from the most competitive teams. They could handle hard facts and numbers as well as any supercomputer, but to do something goofy/funny/human in public – well, they were as shocked as if we'd asked them to assassinate a Taliban terrorist leader between rounds (we're saving that challenge for next year).

"When choosing a course, don't look for how easy or difficult the exams are. Look for a professor who has low-self esteem."

An accountant on one of the teams said that for logical, left-brain thinkers, the hardest test in the world would be the All Souls College Fellowship Examination in Oxford, United Kingdom. You can't revise for it, because it features poetic questions such as "How can words be beautiful?" and "Is meaning best understood via the concept of truth?" One year, applicants had to write for three hours on a one-word "question." The paper just said: "Miracles." Pretty much everyone fails this exam. One failure was T.S. Eliot who went off to be an immortal literary genius instead, and another was Harold Wilson who consoled himself with an easier job – being prime minister.

Incidentally, this columnist once worked with a professor in Hong Kong who gave all his university students A grades, however well or badly they performed. I was puzzled about why he did this until I realized that he had a desperate need to be loved. I saw a book on his desk called *Why Don't People Like Me?* (true story, not a joke). This is news you can use. When choosing a course, don't look for how easy or difficult the exams are. Look for a professor who has low-self esteem.

Meanwhile, a colleague, seeing what I am writing, forwards a link to an article about a final exam in chartered accounting in India which is reputed to be "one of the toughest exams in the world" with a failure rate ranging from 84 percent to 92 percent.

The problem with a 92 percent failure rate is that you have to actually mark all the papers. But if you have a 100 percent failure rate, as in the example that started this column, you don't have to mark any of them.

Which is vitally important, because it takes time to eat a yummy extra-long masala dosa. Bother! Now I've made myself hungry!

(Stops writing, goes foraging for food).

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

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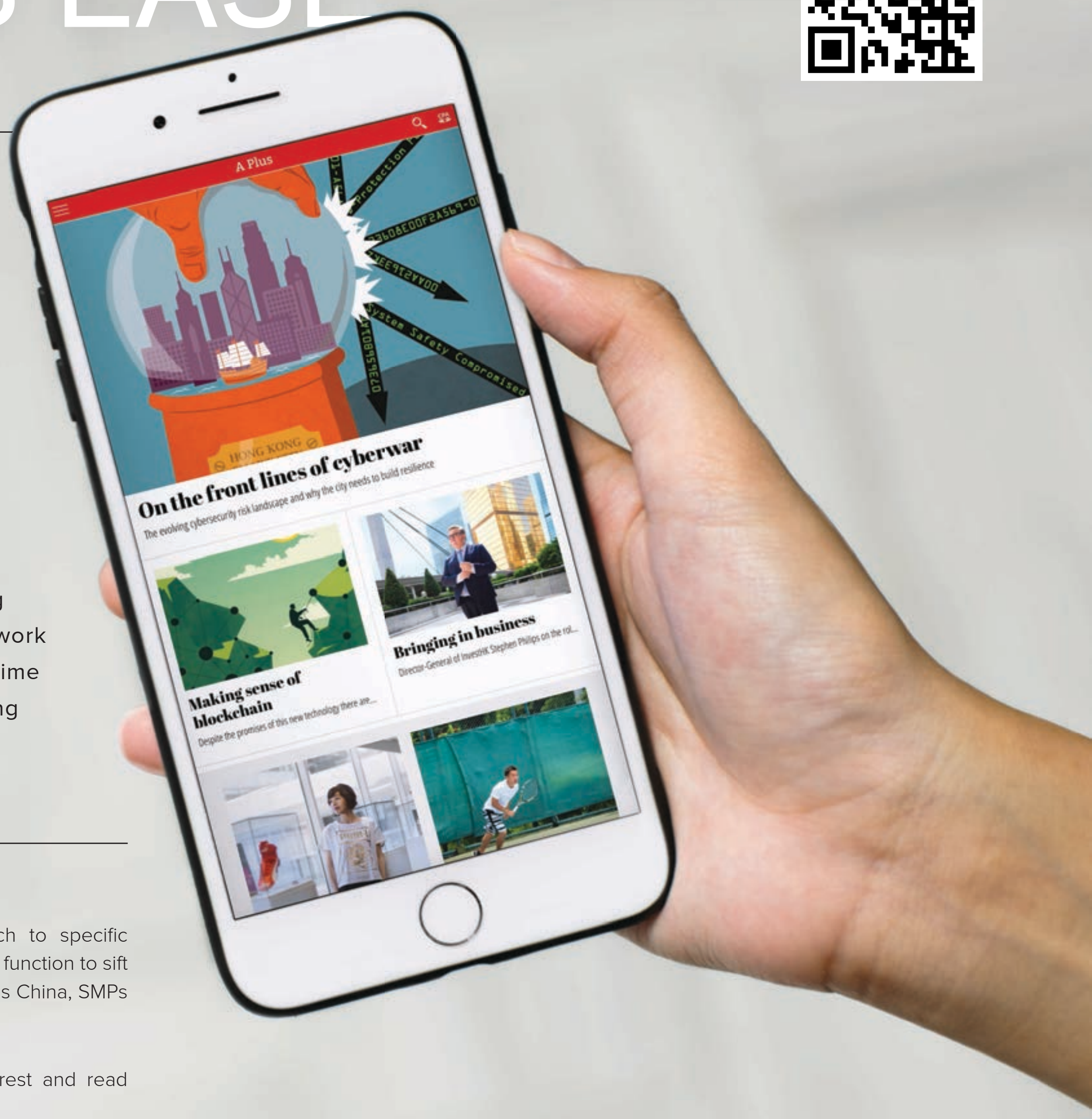

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