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U.K. accounting expert calls for liability reform in Hong Kong

Peter Wyman says a lack of reform will pose risk to Hong Kong's capital markets

▶ A top British financial reporting expert said Hong Kong's economy is risking severe instability by not moving forward on auditors' liability reform.

Peter Wyman, global leader for public policy and regulatory affairs at PricewaterhouseCoopers, told *A Plus* during a recent visit here that the city has fallen far behind other financial capitals in limiting liability, a problem that has grown more pressing given the global economic downturn.

"The world is moving quite fast. Years ago, there were few countries that had liability reform for auditors. That's changing fast now, though, and Hong Kong is getting left behind," he said.

Hong Kong doesn't have any kind of liability reform, while nearly all the major world markets have set a cap on compensation in the event of a lawsuit against an auditor. For example, the United States allows accounting firms to set up liability partnerships, while Britain lets auditors sign agreements with clients to pre-set the cap. Germany



has a maximum compensation cap at €9 million per corporate failure, while Belgium has a €12 million cap.

Hong Kong's stock market will be in trouble if one or two of the big accounting firms go bankrupt, Wyman warned. "Imagine the damage to confidence in Hong Kong's capital markets – once that happens it will damage Hong Kong's economy."

The Institute has been lobbying the Hong Kong government for years to put in place proportionate liability, under which defendants would only pay a portion of the loss for which they

were responsible in the event of a corporate failure or fraud.

The Institute has also proposed capping damages and limited liability partnerships, in which one partner is not responsible or liable for another partner's negligence or misconduct. The government has put off all past requests.

Institute President Paul F. Winkelmann said the lack of liability limitations coupled with the fact that Hong Kong is an extremely open market leaves it hugely exposed to damages

from lawsuits. "It has all of the China players attracting U.S. investors through the Hong Kong market, and I think regardless of the downturn it leaves Hong Kong extremely vulnerable to any failure of a firm," he said.

Wyman met with government officials, executives of the Hong Kong Exchanges and Clearing Ltd. and the Securities and Futures Commission to discuss liability reform. He said Hong Kong could ideally benefit from a cap similar to Australia's rule of 10 times the auditing fee but no more than A\$80 million in compensation claims.

New immigration business opportunity for Hong Kong CPAs

▶ Hong Kong immigration authorities have announced a new programme that allows Hong Kong CPAs to complete applications for high net-worth individuals wanting to qualify for immigration on the basis of their net worth.

The Immigration Department announced on 16 March that the new

arrangement will shorten the processing time of applications submitted under the Capital Investment Entrant Scheme.

According to the rules of the new plan, applicants have to meet the eligibility criteria that they have net assets or net equity with a market value of no less than HK\$6.5 million throughout the two years preceding

the date in which the application was submitted.

Those applicants may now arrange at their own cost a Hong Kong CPA to issue a report demonstrating that they meet those requirements. The Institute has been working closely with the immigration department to develop guidance for this new practice.

Institute revamps governance and operational structure

Move will make volunteer work more direct

▶ In a major shift in the way the Institute is governed, the council announced last month it is modernizing its operations and structure. The new organizational structure will reallocate much of the decision making and responsibility from the council to the Institute's management, which will allow the council to focus on strategy and policy rather than the day-to-day running of the Institute.

Among the biggest changes is the creation of four accountability boards, which oversee the Institute's four functional areas of regulation, standard setting and quality assurance, qualification and education, and member service.

"There will be council representatives on the accountability boards as well as people drawn in who are independent from the Institute," says Chris Joy, executive director. "These will be people who have particular skills, experience or standing in the community."

A new executive committee formed under the council will work under the direction of the chief executive. The other members are two executive directors and other senior executives of the Institute, with the president and two vice presidents serving as ex-officio members.

Many committees have been streamlined or constituted as advisory panels and their work will be reshaped to deliver benefits directly to members. For example, the professional accountants in business sector is planning more forums and workshops on topical issues designed to give members and CFOs knowledge to weather the current financial crisis. Joy notes that members' participation also will need to increase through the faculties, interest groups and advisory panels.

"The Institute can't work without volunteer and member commitment and this new organization acknowledges we are taking into consideration what they need while at the same time making better use of the time they give to the Institute," says Joy. "This is a different approach to our volunteers, where the give and take will be much more meaningful."

The Institute's management and staff, meanwhile, has been undergoing intensive training to take on the additional responsibilities delegated to them by the council and committees.

FRS convergence in China

▶ An update on the current status of convergence of financial reporting standards between mainland China and Hong Kong is now available. The work has been done to maintain the convergence of China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards, as both are mandated reporting standards for listed companies.

The latest report can be accessed at www.hkicpa.org.hk/professionaltechnical/mainland_standards_convergence/. An English version will be available soon.

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Guide to SMP quality control

▶ The IFAC has published a *Guide to Quality Control for use by Small and Medium Sized Practices* to help SMPs understand and apply international standard on quality control. The IFAC guide is similar to the Institute's *A Guide to Quality Control*, which the Institute published in 2006.

More exemptions for QP

▶ QP qualified members can now join the Institute of Chartered Accountants in Ireland without taking aptitude tests, following an agreement signed between the Institute and ICAI in late February in New York. This brings to six the number of institutes granting such exemptions.

Tim Lui appointed chairman of government salary watchdog

▶ Tim Lui, PricewaterhouseCoopers' tax partner and former Institute president, has been appointed chairman of the Standing Committee on Directorate Salaries and Conditions of Service for Hong Kong. He is succeeding Vincent Cheng Hoi-chuen, chairman of The Hong Kong and Shanghai Banking Corp., effective 1 April.

Relief donor award

▶ The Institute has received a certificate of commendation from the Hong Kong Red Cross for supporting its relief works, including the long-term reconstruction projects from the Sichuan earthquake.

CPA marathon runners

▶ Congratulations to the CPA marathon runners who won the top runners' awards of the Institute:
Full Marathon - (Men) William Crowe, Charles Chan Ching-ho and Yuen Kin-kei; (Women) Annie Au Young Hang-yee, Crystal Ho Yu-ching and Chan Yuen-lam;
Half Marathon - (Men) Raymond Chung Wing-chung, Albert Lee Hang-man and Leung Kwok-eking; (Women) Polly Kan Mau-chun and Sarah Woo;
10km - (Men) Terence Lee, Robert Yam Pui-hung and Choi Kam-fai; (Women) Angelina Leung Lai-fun, Wong Bik-heung and Que Yuk-ngor.

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SEC to fix blind spots exposed by Madoff scandal

Regulatory changes follow criticism that SEC failed to expose fraud

By Liana Cafolla

► The U.S. Securities and Exchange Commission is planning to put in place a package of regulatory changes following criticism that it failed to discover Bernard Madoff's US\$50 billion Ponzi scheme, the biggest investment fraud in history.

The newly-appointed SEC Chairman, Mary Schapiro, told a U.S. Senate subcommittee last month that the changes will deal with issues including custody of customer assets, according to *The Wall Street Journal*. The regulator is also discussing the possibility of requiring all investment advisers to have audited financial statements, the report said. An investment adviser currently does not have an audit requirement if it engages a third party to send statements to customers.

Madoff, who was arrested in December for orchestrating the Ponzi scheme, operated as a broker-dealer and an investment adviser. The former Wall Street broker pleaded guilty on 12 March to 11 felony charges, including securities fraud and money laundering. The charges, many of which carry 20-year sentences, will likely send the 70-year-old to prison for life.

Federal prosecutors have also brought fraud charges against David Friebling, the auditor of Madoff's firm, for allegedly signing off on fraudulent statements, the *WSJ* reported. The charges include securities fraud, aiding and abetting investment adviser fraud and filing false audit reports to the SEC. He faces a maximum of 105 years in prison if convicted, the report said.

Financial experts fear that in light of the troubled economy, more fraudulent schemes like Madoff's are on the rise.

Speaking at a seminar at the Foreign Correspondents Club in Hong Kong on 17 March, Tom Robinson, managing director of education at the U.S. CFA Institute, which trains financial analysts, said such schemes are already surfacing. The latest one involves Texan billionaire Allen Stanford, who allegedly operated a US\$8 billion fraudulent investment scheme through his Antigua-based offshore bank.

"We haven't seen the last. There will be more, maybe this year," he said.

Robinson studied similar scandals over the past 80 years and found that improper revenue and expense recognition are the most frequently

recurring strategies used to cover up fraud, a finding that echoed the results of a study by the SEC.

"Particular attention should be paid when receivables are growing faster than revenues or days receivable are increasing over time. This could indicate non-existent sales," he said.

He said auditors should examine whether operating cash flow is out of line with reported earnings, which could be a sign of accounting irregularities. Classifying non-operating or non-recurring income as revenue may indicate a company is selling assets to hide slowing revenues.

On the expenses side, warning signs include a growth in inventory that's out of line with sales growth, excessive use of operating leases by lessees, deferral of expenses and classifying expenses or losses as extraordinary or non-recurring.

In Hong Kong, related party transactions merit particular scrutiny, he said. Auditors should check for previous regulatory, legal or criminal convictions of senior executives, including a history of securities law or reporting violations, or persistent late filings, Robinson advised.

New York CPAs concerned about IFRS roadmap

► The New York State Society of Certified Public Accountants is expressing doubts about the SEC's roadmap for adopting International Financial Reporting Standards.

In a letter addressed to the regulator, the New York society's accountants said they were mainly worried about quality. "The SEC roadmap does not present, in sufficient detail, the methodology and criteria expected to be applied...

in assessing the adequacy of IFRS," the letter read, according to *CFO.com*.

The CPAs also queried whether the SEC was doing enough to ensure financial reports that use IFRS would be comparable with one another. They also questioned whether the International Accounting Standards Board's decision-making process was "conducive to setting future high-quality standards," *CFO.com* reported. The

accountants were also critical of the IASB's recent move allowing companies to retroactively reclassify assets, enabling them to "cherry pick" ones with considerable losses and reverse them out of net-income.

Meanwhile, the SEC has extended the deadline for finance executives to comment on the proposed timeline for all U.S. public companies to switch to IFRS by two months to 20 April.

Obama unveils US\$1 trillion toxic-asset plan

Plan targets soured loans and real-estate securities

Photo: Reuters/OTHK



► The Obama administration has unveiled a US\$1 trillion plan, with an emphasis on encouraging taxpayers and private investors to buy toxic assets from the nation's embattled banks, in its latest effort to shore up the lenders' balance sheets and get credit flowing again.

The two-part investment plan released last month will use up to US\$100 billion of bailout funds from the Treasury and financial guarantees from the Federal Reserve and Federal Deposit Insurance Corp., *The Wall Street Journal* reported. The plan will also offer private investors, including big hedge funds, billions of dollars in low-interest loans to spur purchases of soured loans and real-estate securities, the report said.

The plan would transfer part of the risk to American taxpayers and the federal bank insurance system if assets fall further in value. "We believe

we have to provide very substantial forms of financing to get those markets moving again," said U.S. Treasury Secretary Timothy Geithner, adding the government is also considering placing constraints on the ability of certain big firms to take risks, *WSJ* reported.

The new plan comes as American International Group is under fire for handing out US\$165 million in bonuses last month to executives at a division where the company's financial troubles first began. AIG has received US\$173 billion in bailout funds, far more than what other struggling U.S. companies are getting.

Following the outburst of public anger, 15 of the top 20 bonus recipients at AIG have already agreed to return the money in full, the *Financial Times* reported. New York Attorney-General Andrew Cuomo said the returned bonuses amounted to more than US\$30 million.

Meanwhile, U.S. lawmakers in the House of Representatives passed a bill that would impose a 90 percent tax on bonuses handed out by any company, including AIG, which received more than US\$5 billion in bailout funds. The tax would apply to any employee within the respective firms who make more than US\$250,000. The bill is awaiting

approval from the Senate, whose members have indicated some areas of the bill may be difficult to reconcile, *The New York Times* reported.

The insurance giant, which announced a record US\$61.7 billion fourth-quarter loss last month, recently released the names of dozens of financial institutions that have benefited from the Federal Reserve's taxpayer monies. AIG named nearly 80 companies and municipalities, including Goldman Sachs, which received US\$12.9 billion, and Merrill Lynch, which got US\$5.8 billion, the *NYT* reported. European banks including Société Générale and Barclays also benefited heavily from the Fed's rescue plan, the *FT* said.

The list could conflate the controversy because many of the institutions that benefited from AIG's bailout money also received separate government funds.

Seven Merrill Lynch executives were also served subpoenas in early March to explain more than US\$10 million in bonuses they received last year, according to the *FT*. The bonuses sparked public condemnation because they were doled out when Bank of America Corp. had just asked the government for US\$20 billion to help complete its acquisition of Merrill Lynch.

Policy divisions surface during G20

► G20 finance ministers and central bankers have wrapped up preparatory meetings ahead of a 2 April London summit, with little progress made over how to lift the world out of the economic slump.

During the meeting in mid-March in southern England, widening cracks

surfaced between European and U.S. officials over whether to spend or regulate their way out of the global crisis, *The Associated Press* reported. European countries are pushing for greater oversight of financial markets, while the United States is focusing on bigger stimulus measures, the report said.

Finance ministers did agree to increase funding for the International Monetary Fund to US\$500 billion so it can help emerging market economies, *AP* reported. The group also renewed pledges that free-wheeling hedge funds would no longer escape regulation, *Reuters* reported.

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»»International

ASEAN leaders vow to curb protectionism

▶ The 10-member Association of Southeast Asian Nations wrapped up their annual summit in Thailand last month with pledges to stand firm against protectionism amid the global financial crisis, the *South China Morning Post* reported. In a statement issued after the summit's conclusion, ASEAN leaders urged developed and developing countries to "show more coordinated action... to restore financial stability and ensure the continued functioning of financial markets," *SCMP* reported.

KPMG says emerging market deals falling

▶ A new KPMG study shows a 37 percent decline in the number of western companies buying into emerging markets in the second half of last year, the lowest figure since 2003. Deals from emerging markets to developed countries have suffered a 28 percent drop in the same period. "Trade buyers around the world are constrained by the lack of available credit... those that do currently have access to funding are not necessarily intending [to go on] an uncontested spending spree," said Ian Gomes, chairman of KPMG's high growth markets practice.

New changes to IFRS 7

▶ The IASB has come up with changes to IFRS 7, which deals with disclosures related to measuring financial instruments at fair value, *CFO.com* reported. The new rule requires companies to disclose the level of liquidity risk associated with securities, the report said. The move is a small step towards the convergence of global accounting standards, as the amendment also requires companies to use the three-level hierarchy in the U.S. fair value measurement rule, FAS 157.

Deloitte issues going concern notice to embattled General Motors**Automaker posts US\$31 billion loss for 2008**

▶ Deloitte & Touche is casting doubt on General Motors' ability to stay viable as the troubled automaker posted a 2008 loss of nearly US\$31 billion and is seeking additional funding from the government.

In GM's 2008 annual report filed to U.S. security regulators last month, the company carried the auditor's going concern notice, which stated that "the corporation's recurring losses from operations, stockholders' deficit and inability to generate sufficient cash flow to meet its obligations and sustain its operations raise substantial doubt about its ability to continue as a going concern," *CFO.com* reported.

GM burned through US\$5 billion in the fourth quarter of 2008, *CNN* reported. The corporation is currently in talks with U.S. Treasury officials for US\$16 billion in additional bailout funds, on top of the US\$13.4 billion approved last December.

Chrysler, another troubled U.S. automaker, is also trying to persuade the U.S. government for US\$5 billion more in funding following a US\$4 billion bailout approved last year.

U.S. vehicle sales hit fresh lows in February; General Motors marked a 53 percent decline from a year earlier, Ford noted a 48 percent decline and Chrysler dropped 44 percent from the previous year, according to the *Financial Times*.



General Motors Chairman Rick Wagoner

Photo: Reuters/OTHK

Major tax havens to relax secrecy laws

▶ Six European banking havens have offered to relax bank secrecy laws in an effort to cooperate with international tax investigations and avoid a crackdown on them for protecting tax evaders, according to *The Wall Street Journal*.

Switzerland, Liechtenstein, Luxembourg, Andorra, Austria and Monaco confirmed last month that they will comply with the Organization for Economic Cooperation and Development standards in tax investigations based on treaty arrangements.

There are limitations, however. Three of them – Switzerland, Austria and Luxembourg – have refused to fully cooperate with international tax-evasion investigations, stating that such activities are not considered a criminal offence in their jurisdictions, the *WSJ* reported.

Switzerland will share information only after a country details a request on individual cases, while Austria will not allow foreign tax investigators to conduct what it described as "fishing expeditions" for tax evasion in Austrian bank records, the report said.

G20 leaders are expected to draw up a list of tax havens that will be subject to international sanctions during this month's summit. The G20 leaders have persistently said they were losing out on billions of dollars in taxes from their citizens who hide their money in tax havens.

China expresses concerns over safety of U.S. investments

Premier Wen calls on U.S. government to provide assurances

▶ Chinese Premier Wen Jiabao has called on Washington to safeguard the more than US\$1 trillion in foreign reserves it has invested in U.S. treasury bonds and related securities.

During a news conference marking the end of China's annual National People's Congress meeting on 13 March, Wen said that China, the U.S. government's largest creditor, is worried about its investments, *Bloomberg* reported. China has invested US\$696 billion in U.S. treasury bonds as of 31 December, a 46 percent increase from a year ago, the report said.

"I request the U.S. to maintain its good credit, to honour its promises and to guarantee the safety of China's assets," Wen said.

U.S. President Barack Obama responded by assuring China that its U.S. investments are safe, according to *The New York Times*. "Not just the Chinese government, but every investor can have absolute confidence in the soundness of investments in the United States," he told reporters.

China has lost around US\$80 billion

of its US\$2 trillion in foreign exchange reserves invested worldwide due mainly to bad timing in diversifying into global equities, the *Financial Times* reported.

According to an editorial in the *South China Morning Post*, the premier's comments could be a sign that China now considers its U.S. investments as a "bargaining chip" for concessions from Washington on trade and hi-tech exports. Chinese President Hu Jintao will be holding his first meeting with President Obama during the G20 summit in London, which begins on 2 April.

On China's domestic economy, Premier Wen told the Chinese parliament that the country can expect an 8 percent GDP growth despite a record fiscal budget deficit of 950 billion yuan this year, *China Daily* reported.

Although the deficit is almost three times the previous record set in 2003, a senior economist with the Chinese Ministry of Finance said it was still well within the "warning line" of 3 percent of the nation's GDP and still allows the government room to react to changes in the economy, the report said.

Wen also assured Chinese lawmakers that the government would spend 1.18 trillion yuan of the four trillion yuan stimulus package on improving livelihoods, technology, environmental protection and infrastructure, *SCMP* reported.

Meanwhile, China's consumer price index in February fell for the first time in six years, down 1.6 percent from a year earlier, prompting economists to warn that the government needs to take action to avoid a bout of deflation, according to the *FT*.

Chinese exports plummeted 25.7 percent year-on-year in February amid a collapse in global trade. Exports fell to US\$64.9 billion, while imports plunged 24.1 percent to US\$60.1 billion, *Xinhua* reported. PricewaterhouseCoopers estimated that 670,000 small mainland Chinese companies have shut down since the financial crisis began, according to the *International Herald Tribune*. In a bid to provide financial support for the exporters, China will gradually cut export taxes to zero, the *FT* said.

Hong Kong unemployment reaches 5 percent

▶ Hong Kong's jobless rate has risen to 5 percent in the latest three-month period, as companies continue to shed jobs in their battle against the financial crisis.

The December to February figure represented an increase from the 4.6 percent unemployment rate recorded in the previous three-month period. The job losses mainly occurred in construction, transport, import and export trades, manufacturing and catering. The number of unemployed

people jumped to 171,900 between December and February, from 157,700 in the November to January period.

The Walt Disney Co. has again delayed a planned expansion of its Hong Kong theme park and laid off about 30 employees due to a low number of visitors, *Reuters* reported. Several financial magazines were also shutting down, including *CFO Asia* and *CFO China* of the Economist Group, and *Hong Kong Business*

published by Edipresse Asia. *Hong Kong Business*, which has been in the market for 26 years, laid off 11 editorial, sales and circulation staff, news reports said. In addition, 700 staff at accounting firm Grant Thornton are facing a single digit salary cut across the board. A spokesperson did not provide specific figures, but said employees have been encouraged to take 10 days of unpaid leave between April and June of this year.

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Green light for HSBC rights issue

Shareholders back plan to raise US\$17.7 billion

▶ HSBC Holdings shareholders have overwhelmingly approved its plan to raise US\$17.7 billion through rights issue at HK\$28 per share after the bank suffered a 70 percent plunge in profits following massive losses in its U.S. consumer finance business, news media reported.

Some 99.4 percent of shareholders voted in favour of the rights issue, which will boost the bank's capital in the face of what HSBC Holdings Group Chairman Stephen Green described as "unprecedented turmoil in the economic and financial environment," according to the *South China Morning Post*.

About 200 million HSBC rights shares worth more than HK\$2.4 billion changed hands on 23 March, the first day of trading in Hong Kong, according to *Hong Kong Commercial Radio*. The rights shares traded as low as HK\$10.80 and closed at \$13.20. Much of the rights selling was done by retail investors, *The Wall Street Journal* reported.

The bank announced the rights issue last month when it disclosed that its net profit fell to US\$5.73 billion last year, from US\$19.13 billion in 2007. This was mainly due to losses of US\$15.5 billion at its U.S. consumer finance business, including a US\$10.6 billion goodwill write-down. Green expressed regret for the acquisition of Household Finance in 2003 and said the bank would wind



down most of its U.S. personal finance business and cut 6,100 jobs there.

Douglas Flint, the bank's group finance director, said during a brief visit here that the goodwill impairment charge to the bank's U.S. operations would be a one-off and the bank would unlikely seek more funds from shareholders following the rights issue.

The profits plunge and rights issue have made HSBC the centre of controversy in recent weeks.

Earlier, the bank also came under fire from Hong Kong lawmakers for not issuing a profit warning before its earnings decline announcement, *The Standard* reported. However, the newspaper quoted Mark Dickens, the new head of HKEx's listing division,

as saying that it is a firm's own decision whether to issue a profit warning.

Meanwhile, the Hong Kong Securities and Futures Commission has begun an investigation into whether market manipulation caused HSBC Holdings PLC's steep share drop in early March.

Massive last-minute trading in HSBC shares during the closing auction on 9 March resulted in the blue chip closing 24 per cent down at HK\$33 — its lowest level in 13 years.

The SFC said in a statement that the investigation will look into whether the closing price of the share was the result of any manipulation contrary to the Securities and Futures Ordinance under Cap 571, which prohibits false trading, price rigging and manipulation.

FRC refers four cases for further investigation

▶ The Financial Reporting Council has referred four cases involving listed companies to law enforcement agencies and regulators for follow-up action.

Sophia Kao, the FRC's chair, said the four cases were among a total of 33 complaints received from its inception in December 2006 to the end of February.

She said 60 percent of the cases were about failure to comply with accounting requirements. She declined to provide specific case details.

The FRC got 16 complaints from the public, while the rest were from various government departments and law enforcement agencies. The FRC is

still reviewing six of the 33 complaints and has suspended reviews on four of them pending investigation results from enforcement agencies. The FRC also began reviewing modified auditor's reports since mid-July last year and has completed 33 cases so far — one of them warranted an enquiry, Kao said.

Budget falls short of Big Four expectations

HK\$10 billion cushioning package is not enough

By Naomi Martig

▶ Hong Kong Financial Secretary John Tsang faced heavy criticism for the 2009-10 budget and tax relief measures, which the Big Four said were not enough to alleviate the impact of the global financial crisis on Hong Kong.

The HK\$10 billion cushioning package announced in mid-February aims to create 62,000 jobs. Individual taxpayers will receive a one-off 50 percent rebate on salaries tax, up to HK\$6,000 – much lower than last year's 75 percent tax reduction with a ceiling of HK\$25,000. Property rates will also be waived for the first two quarters, up to a ceiling of HK\$1,500 per quarter.

Three of the Big Four were sceptical about the proposed measures. PricewaterhouseCoopers and Deloitte questioned whether the salaries tax reduction could boost spending and help stimulate the economy. The firms noted there was no substantial tax relief for businesses, which are already suffering from the downturn.

Ernst & Young, meanwhile, chided the financial secretary for being “bereft of ideas, dynamism and vision as to how to combat the current financial crisis in the short term.” E&Y's said in a statement that none of the short-term measures are expected to immediately encourage consumption.

The Institute agreed. “We should use the wealth we've built up over the past two years to carry us through the difficult times,” said Ayesha Macpherson, chair of the Institute's tax committee.

Tsang rejected criticisms that the budgetary measures are too weak, saying it will create a lot of job opportunities and stimulate the economy.

Hong Kong's economy is expected to contract by 2 percent to 3 percent in 2009, the first full-year contraction for the territory since the Asian financial crisis. The territory's budget deficit for 2008-09 is expected to be HK\$4.9 billion, below its previous estimate of HK\$7.5 billion.

M&A interest wanes in mainland China

▶ A survey by Grant Thornton showed a 40 percent drop in the number of private mainland businesses planning to go public in the next three years.

The study, conducted late last year, covered 7,200 firms in Hong Kong and 35 other countries. Of the 300 mainland companies polled, only 41 percent said they intended to make acquisitions in the current economic climate, compared to 67 percent in the previous year.

The Bank of China's Beijing branch, however, is bucking the trend by offering Huaneng Power International, the nation's largest listed power company, a 680 million yuan loan to fund its merger and acquisition activities, *China Knowledge Newswires* reported. This is the first M&A loan since the China Banking Regulatory Commission lifted restrictions on mainland banks to fund such activities last November.

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Hong Kong investors sue Lehman, HSBC

▶ Hong Kong investors have filed a class-action lawsuit against Lehman Brothers and HSBC in the United States to recoup US\$1.6 billion in losses from minibonds that are now nearly worthless, *The Associated Press* reported. U.S. lawyers said the plaintiffs are mostly retail investors and retirees who bought US\$2 billion worth of Lehman minibonds that a unit of HSBC Holdings PLC had labelled “low-risk,” the report said. The plaintiffs are seeking compensation for 33,000 minibond investors in Hong Kong.

Debate on Dragonair's goodwill impairment

▶ Analysts in Hong Kong are debating whether Cathay Pacific Airways, which posted a record loss of HK\$8.65 billion for the 2008 fiscal year, should make provisions for impairment losses against Hong Kong Dragon Airlines' goodwill of assets, the *South China Morning Post* reported. According to Cathay's annual report released in early March, the airline paid HK\$7.78 billion for Dragonair's goodwill in 2006 and it now accounts for 20 percent of the airline's net assets, the report said. The question at hand is whether Dragonair is still worth that same premium in the current environment. Cathay's chief executive, Tony Tyler, said the airline is considering selling assets to raise cash, *SCMP* reported.

U.S. firms in China to delay investments

▶ The latest annual survey by the American Chamber of Commerce in Beijing shows more than a third of U.S. companies in China expect their revenues to drop this year and will postpone planned investments. The survey, released last month, showed that 35 percent of AmCham members expect their companies to earn less, up significantly from 13 percent in last year's survey. Moreover, 21 percent of the 400 respondents are planning to shrink their China workforce, while 37 percent said they will postpone investments.