How CPA mums juggle the most important things in life
Maintaining our global mindset

Dear members,

We are now making final preparations to host a high-level international event: the seventh IFRS Regional Policy Forum on 5 and 6 June. International standard-setters, together with accounting and financial leaders from around the world, will be attending the two-day event at the InterContinental Hong Kong to discuss how to pave the way towards better financial reporting.

Taking opportunity of the forum, the Asian-Oceania Standard-Setters Group, of which our vice president Clement Chan will soon be the chair, will be holding their interim meeting, and we will also be conducting financial reporting seminars in conjunction with the International Accounting Standards Board in Hong Kong during that week.

Another important global activity took place last month when the Institute and HSBC co-hosted the launch of the consultation draft of the international integrated reporting framework produced by the International Integrated Reporting Council. Hong Kong was one of 15 major cities worldwide to launch the draft.

Integrated reporting provides concise communications about how an organization's strategy, governance, performance and prospects lead to the creation and maintenance of value in the short, medium and long term, which at the end will benefit companies, investors and society as a whole. Don't miss your chance to influence the future of corporate reporting by responding to the consultation draft before 15 July.

We recently visited the Qianhai Bay free-trade zone in Shenzhen to continue our efforts to strive for business opportunities for our members under Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement, which among other things, allows Hong Kong CPAs who have obtained the Chinese Institute of CPAs qualification to become partners at Mainland accounting firms in that area. This pilot programme is a good way to create a model for other cities in the Mainland.

On another note, I wish to thank Hong Kong chief executive C.Y. Leung, who led a team of senior government officials to visit our Beijing office during his recent trip to the Mainland. We talked about standards convergence and our various cooperation activities with other Mainland stakeholders. Our Beijing city group members also shared their views on the current working and living environment in the capital.

Back in Hong Kong, we held our first members' forum, meeting face-to-face with our members and answering their questions in relation to the Council's work. I enjoyed the chance to engage in sincere and direct interaction with members very much. These events are extremely valuable for keeping the Institute's strategies in line with our members' thinking.

The forums will continue on the last Monday of each month and each one will have a unique theme. I look forward to meeting with you together with the Institute's chief executive and Council members.

One membership group we eagerly support is our professional accountants in business. A number of initiatives are in the pipeline, including a complimentary three-month subscription to the ICAEW's finance and management faculty, which provides relevant practical and technical advice and support to enable PAIBs to stay ahead in the business world. We are also developing other programmes to help PAIBs in their career cycle and will update you when we have more news.

Another project supported by the Institute is the Financial Times non-executive directors' diploma. The Institute has been expending considerable effort to review the localization of the audit and accounting modules of the course, which has a good track record and reputation in the United Kingdom.

Lastly, I wish to extend my warmest welcome to the 1,600 newly admitted members since June 2012. A cocktail reception on Saturday 11 May is specially hosted to let them learn more about the services and career development support offered by the Institute.

In this 40th anniversary year, I am proud of our Institute's growth from a small and humble body in 1973 to an influential player in international accounting and finance in 2013.

Susanna Chiu
President
**Turning things around**
Restructuring not only offers an alternative to insolvency, it also can successfully reposition a company, as George W. Russell discovers.

**Meet the Council**
The fourth part of our series on the Institute’s Council features ex-officio member Ada Chung and elected members Ronald Kung and Nelson Lam.

**Taking on challenges**
In the second of a series marking the Institute’s 40th anniversary, A Plus looks at landmark events of the 1970s.

**Success ingredient**
Mark Graham interviews World Gold Council COO Sidney Chan in Beijing about investment in the precious metal.

**Power mum**
Jemelyn Yadao discovers how Institute members combine a busy career as a CPA with the demands of motherhood.

**Hong Kong law**
Paul Yeung and Benny Tang explain financial reporting under the amended Companies Ordinance.

**TechWatch 126**
The latest standards and technical developments.

**Tech Q&A**
Your questions about standards answered.

**Events**
A guide to forthcoming courses, workshops and member activities.

**Business travel**
Honnus Cheung pops over the boundary to gob-smacking Guangzhou.

**After hours**
Aloysius Tse on wine; Jemelyn Yadao on watches.

**Let’s get fiscal**
Nury Vittachi finds some giggles in gimmicks.
DRIVING BUSINESS SUCCESS

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

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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.
The global evolution of corporate reporting has taken another significant step forward with the release last month of the international integrated reporting framework consultation draft.

The International Integrated Reporting Council launched the framework in 15 cities, including Hong Kong, where the kick-off event was organized by the Hong Kong Institute of CPAs and HSBC on 16 April.

“The IIRC aims to create a framework that is fit for purpose in order to help businesses communicate value in the 21st century,” said Chris Joy, executive director of the Institute.

The IIRC is calling on Institute members and all stakeholders across the world to read the draft and respond with comments by 15 July. “Discuss and understand what it means for you and respond to the draft,” IIRC chairman Paul Druckman said in a videotaped address at the launch. “This is your chance to shape the future of reporting.”

In 2011, CLP Holdings and HSBC agreed to be the Hong Kong-listed pilot companies adopting the IIRC’s framework on corporate reporting and incorporated the social and environmental aspects of its business into its annual report. The IIRC was established in 2010 and the pilot programme is being implemented in 25 countries.

According to the IIRC, the framework creates the foundations for a new reporting model to enable a business to provide a concise communication of how it creates and maintains value in the short, medium and long term. An integrated report, it says, should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments.

“Integrated reporting allows us to give a coherent report to our shareholders and stakeholders,” said Robert Kwok, group accounting and compliance manager at CLP Holdings, which produces a 230-page annual report.
Tony Bloomfield, HSBC’s regional chief accounting officer, said the bank welcomed the launch of the framework’s consultation draft. “The framework is going to be very helpful for us.”

However, with its latest annual report coming in at more than 500 pages in print (and more than 900 pages in its online version), HSBC admits it needs to work harder on conciseness. “We haven’t made as much progress as we would have liked,” Bloomfield acknowledged.

The Coca-Cola Company, The Clorox Company, National Australia Bank, Unilever and the Hyundai Motor Company are among the global corporations that have supported integrated reporting worldwide. More than 50 institutional investors have been involved in shaping and testing the framework, including Deutsche Bank, Goldman Sachs, Natixis, APG and Norges Bank.

According to the IIRC, an integrated report would be of benefit to all stakeholders interested in an organization’s ability to create value over time, including investors, employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

Integrated reporting differs from the current reporting landscape, IIRC has stressed, in particular through the introduction of the concept of six capitals: financial, manufactured, intellectual, human, social and relationship, and natural.

“The IIRC aims to create a framework that is fit for purpose in order to help businesses communicate value in the 21st century.”
South Korean economy expands at fastest pace in two years in Q1
Central bank earlier cut growth forecast to 2.6 percent

South Korea’s economy hit a two-year high in the first quarter as exports rebounded despite competition from a weak yen, according to central bank data released last month. The Bank of Korea unveiled that the economy grew 0.9 percent in the first three months of the year, compared with a rate of 0.3 percent in the previous quarter, the strongest pace since January-March 2011.

Earlier last month, the central bank revised its growth forecast for this year down to 2.6 percent from 2.8 percent, amid sluggish export demand from Europe and the United States.

A sharp decline in the Japanese yen, which has fallen by almost 20 percent against the U.S. dollar since November 2012, stirred fears over the negative impact this will have on Korean exports.

However, the recent positive data showed that exports, which account for more than half of South Korea’s gross domestic product, have risen by 3.2 percent from the fourth quarter of 2012 when exports saw a 1.1 percent drop.

The recent data came after president Park Geun Hye revealed a US$15 billion extra budget and property stimulus package earlier last month to spur growth in Asia’s fourth-largest economy and grapple with its stagnant property market.

Last year, the central bank delivered two interest rate cuts, bringing the base rate down to 2.75 percent.

“A solid GDP figure will definitely reduce any bets on a further [interest] rate cut,” Kong Dong Rak, a fixed-income analyst at Seoul-based Hanwha Investment & Securities, told Bloomberg. “Given government stimulus and improving global economic conditions, we may see even faster growth in the second half.”

EU lawmakers vote to reform audit rules

In a step closer towards the requirement for mandatory audit firm rotation, a key European parliamentary committee voted last month in favour of a draft law that would reform the way audits are conducted.

Under the reforms, drafted by British legislator Sajjad Karim, companies will be required to change their auditor every 14 years. This period could be extended to 25 years by member states if they fulfil certain criteria, Accountancy Age reported.

“Reforming the audit sector is crucial to boost confidence in the financial markets, and to support growth and investment in European companies,” said Karim, speaking after the vote.

A final vote in the European Parliament on the reforms is expected to take place before the end of the year.

Santander misses forecasts as first-quarter profits slide

Banco Santander, Spain’s biggest lender and the biggest in the euro currency zone by market value, said that profits fell 26 percent in the first quarter compared with the same period a year earlier.

The bank said on 25 April that it made a net profit of €1.21 billion in that quarter, down from €1.63 billion a year earlier.

The figure was less than the €1.31 billion average estimate of analysts surveyed by Bloomberg.

Brazil, the United Kingdom and most of the bank’s other markets reported a slowdown in business. The U.K. business, for example, saw the amount of customer loans during the quarter fall from £204 million to £192.4 million.

According to the Financial Times, Santander’s business in Latin America, which accounts for more than half of its quarterly earnings, reported an 18 percent fall in net profits.

The bank said total net interest income, the profits generated by banks’ core lending activities, fell 6.3 percent from the fourth quarter, down 14.3 percent from a year earlier as a result of low interest rates and recessions in key markets.

Despite the disappointing figures, Santander remains positive that it will still be able to exceed last year’s earnings.

“Profit in 2013 will be significantly higher than the €2.3 billion registered in 2012,” Emilio Botín, Santander’s executive chairman, was quoted as saying by the FT.

“This comes after four years in which we set aside €60 billion for bad loans, added €20 billion to our capital and strengthened deposits by €223 billion,” he added.

The bank said the results represented “the beginning of a return to normality,” reported the FT.
U.K. doing better than expected, posting 0.3 percent growth in Q1
“Triple dip” avoided but construction shows weakness

Britain’s economy recorded a better-than-expected growth of 0.3 percent in the first quarter of this year, avoiding a so-called triple-dip recession, according to an initial estimate by the Office for National Statistics.

The chancellor of the exchequer, George Osborne, last month welcomed the estimate, saying that the figures were an “encouraging sign the economy is healing.” He added in a statement that “despite a tough economic backdrop, we are making progress.”

The gross domestic product growth beat the 0.1 percent rise previously expected by analysts and suggested that the United Kingdom’s economy avoided two consecutive quarters of contraction, which would have put the country in its third recession in five years.

The chancellor also said that the positive figures were evidence that Britain’s economy is on track for recovery and that the government’s policies were “building an economy fit for the future.”

BoJ raises its forecast over GDP outlook

Strong performance from Britain’s services sector, which grew by 0.6 percent in the first quarter, significantly contributed to the GDP growth. However, showing signs of continuing weakness, construction activity fell by 2.5 percent in the quarter and remains more than 18 percent lower than it was before the start of the 2008 financial crisis.

“While the service sector looks to have led the way, the construction industry figure is more worrying and shows the need to get projects moving at a quicker pace,” Phil Orford, chief executive at the Forum of Private Business, told BBC News.

The U.K. economy has still not recovered from the financial crisis with the country’s GDP remaining at 2.6 percent below its peak in the first quarter of 2008.

Apple sees profits fall for first time in 10 years

Technology giant Apple reported its first fall in profits in a decade last month and revealed a plan to boost its share buyback programme by US$50 billion, encouraging investors.

Apple announced that it made a net profit of US$9.5 billion in the first quarter of this year, down from US$11.6 billion a year earlier. According to the Guardian, the results were marginally higher than what analysts had forecast.

The company also said it sold 37.4 million iPhones and 19.5 million iPads worldwide in the quarter, boosting revenues to US$43.6 billion.

“We are pleased to report record March quarter revenue thanks to continued strong performance of iPhone and iPad,” Tim Cook, Apple’s chief executive, said in a statement.

After the announcement, Cook revealed that the company planned to buy back US$50 billion in shares, taking the total to US$100 billion worth of shares over two years.

While Apple remains a dominant player in the tablet and smartphone markets, stronger competition and weaker demand have raised concerns by investors that its market share was being eroded. Apple has lost around 40 percent of its stock market value since September 2012.

The decline has been “frustrating,” Cook told analysts.

The Bank of Japan sharply raised its forecast for economic growth and inflation for this year in its latest semi-annual economic and price outlook report last month.

The central bank said that the world’s third-largest economy would begin to pick up by the middle of this year and lifted its estimate for growth in the 2013 fiscal year to 2.9 percent, up from its previous forecast of 2.3 percent.

The bank said that it expects annual inflation to rise to 0.7 percent this year, up from an earlier forecast of 0.4 percent.

“Japan’s economy has stopped weakening and has shown some signs of picking up,” the bank said in its report, adding that it also expects an increase in consumer demand before national sales tax doubles to 10 percent by 2015.

The report was published as the BoJ’s policy board members held the first meeting since the bank announced last month a massive stimulus package, aimed at spurring economic growth.

The optimistic targets were made as the Statistics Bureau released separate worse-than-expected deflation data for March. Highlighting the continued pressure that the bank faces, the figures showed that core consumer prices fell 0.5 percent that month from a year earlier, the fifth consecutive month of year-on-year declines.
Scott London, a former KPMG partner, was charged last month with criminal insider trading by the Department of Justice in the United States after leaking client information.

KPMG announced that the firm had resigned as the auditor of Herbalife, a maker of beverages and other products, and Skechers, a footwear group, after allegations emerged claiming London had shared inside information to a friend about the two companies.

In an interview with Reuters, David Weinberg, chief financial officer of Skechers, confirmed that London had been the lead auditor for the company. He also headed the team that verified the financial statements of Herbalife.

KPMG announced that London, who had worked for the firm for 29 years, was subsequently fired. London admitted to wrongdoing in a statement through his lawyer, saying that he regretted the leaking, which started in an effort to help someone whose business was struggling. He also claimed that KPMG bore no responsibility, saying: “No one in the firm knew what I did.”

According to the Los Angeles Times, London was secretly photographed by the Federal Bureau of Investigation being handed an envelope containing US$5,000 in cash by Bryan Shaw, a jeweller and stock trader, at a Starbucks in California’s San Fernando Valley. The cash was a payoff for giving Shaw inside information about the two companies that KPMG audited.

London was initially unnamed when news of the KPMG resignations broke, raising concerns by critics about the lack of audit transparency.

Canadian unified body kicks off its operations
The Chartered Professional Accountants of Canada became fully operational last month, signalling a significant milestone in the country’s efforts to unify its provincial accounting bodies under a single organization. Jointly established by the Canadian Institute of Chartered Accountants and the Society of Management Accountants of Canada on 1 January, the body’s first focus will be to develop a new CPA certification programme.

BDO acquires PKF, creates mid-market force in U.K.
BDO finalized its merger with PKF in the United Kingdom earlier last month. The combined firm is expected to reach revenues close to £400 million, Economia, the Institute of Chartered Accountants in England and Wales’ online magazine, reported. Simon Michaels, managing partner of BDO, told the magazine that the merger “has created one of the strongest firms focused on the mid-market.”

Deloitte questioned over non-audit services to RSA
Deloitte’s independence was called into question by several top shareholders at RSA when the insurance group’s annual report was issued last month. RSA revealed in its report that it had paid Deloitte £10 million for tax and management consulting, around £4 million more than the fees paid for audit work. In its preliminary results released in February, the company announced that KPMG was to replace Deloitte as auditor.

Vodafone restates results after IFRS adoption
Vodafone announced that it was restating its financial results going back two fiscal years following the adoption of new International Financial Reporting Standards that will cut historical revenue and earnings because of a difference in how joint ventures are accounted for. For the year ended March 2012, revenue was revised to £38.8 billion from £46.4 billion, the British telecommunications company said in a statement last month, Bloomberg reported.

Former KPMG partner charged over U.S. insider trading scandal
Accounting firm quits Herbalife, Skechers audits

Scott London, a former KPMG partner, was charged last month with criminal insider trading by the Department of Justice in the United States after leaking client information.

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Performance of Canadian auditing firms is improving, says watchdog

Canadian accounting firms have significantly improved their audit work after a highly critical assessment last year, according to the Canadian Public Accountability Board.

In its 2012 inspection report released last month, the CPAB, which oversees the work of audit firms in Canada, concluded that audit deficiencies fell by 30 percent in 2012 compared to 2011, and by 30 percent at the Big Four.

The improvement came after the CPAB issued a report about audit work in 2011, complaining that the firms had made little progress in improving their work and continued to show the same weaknesses year after year, The Globe and Mail, a Toronto daily, reported.

“These action plans resulted in an overall improvement in the inspection results for the Big Four firms,” the paper quoted CPAB chief executive officer Brian Hunt as saying.

While the decrease in the number of audit deficiencies is welcoming, the report stated that the work of audit firms remains uneven and auditors need to apply more “professional scepticism” when reviewing companies’ finances.

Hunt added that firms must commit to continuous improvement at all levels.
Q1 economic growth slumps, falling short of most analysts’ expectations

Trade partners face declining demand for commodities

The National Bureau of Statistics last month announced that China’s economic growth slowed to 7.7 percent in the first quarter, compared with the same period a year ago, in a performance worse than what analysts had forecast.

“After 30 years of high-speed economic growth, potential productivity in China has dropped,” said Shen Laiyun, a bureau spokesman. “During the economic transformation period of other countries, such as Germany, Japan and South Korea, their overall economic growth rates also fell to a lower level,” he added.

Analysts had predicted that the world’s second-largest economy would grow by about 8 percent in the first quarter after it rebounded in the middle of last year, growing 7.9 percent in the fourth quarter of 2012, the Financial Times reported. It is expected that the surprisingly slower growth will affect economies around the world and hit exporters of raw materials.

For commodity exporters in places like Australia, Latin America and Africa, much slower Chinese growth is very bad news,” Frederic Neumann, co-head of Asia economic research at HSBC, told the FT. “A lot of supply is coming on stream that is predicated on the idea that China would grow faster than 9 percent forever.”

China’s president, Xi Jinping, is intent on adopting a sustainable long-term economic expansion. In a meeting with business leaders last month, Xi said China’s economy would continue to grow rapidly but also noted that the country is unable to sustain an “ultra high-speed growth.”

“China’s model of development is not sustainable, so it is imperative for us to speed up the transformation of the growth model,” the FT quoted Xi as saying.

Some large banks in China are leaving 60 percent of small Chinese firms without financing, a researcher said last month, reported Reuters. It suggests that raising capital is still a challenge for the country’s small businesses.

Ba Shusong, a researcher from the Development Research Centre, a think-tank that advises China’s cabinet, was citing a study he led on the funding conditions for small- and micro-sized businesses.

According to Ba, small companies are often left without financing as the result of not being able to meet the stringent collateral requirements set by larger banks.

China has recently ordered its state-controlled banks to increase lending to small businesses to avoid a repeat of a 2011 cash crunch.

The research, however, suggests that this effort is struggling.

“Everyone right now talks about financing for small- and micro-sized firms. There is a portion of big banks who are faking their lending to such smaller firms,” Ba said, addressing the Boao Forum in southern China last month.

The study, which surveyed 1,000 smaller Chinese firms across a dozen sectors, found that 40 percent of companies have loans from banks. “The lack of appropriate collateral is one of the basic sources of financial difficulty for small and micro businesses,” the study said.

According to the study, 40 percent of firms said they pay interest rates of more than 10 percent despite the central bank last year cutting interest rates twice by 50 basis points in a bid to tackle slowing economic growth.

The study recommended that banks expand their pool of acceptable collateral to include orders, warehouse warrants, equity and intellectual property.

Hertz signs on for 20 percent of car hire firm

Hertz, the American car hire giant, agreed last month to buy a 20 percent stake in China Auto Rental, one of the largest car rental firms in China, as it looks to boost its presence in the mainland’s growing market.

Under the deal, China Auto will be licensed to initially operate on behalf of Hertz in China for five years. The two companies will be co-branded at China Auto’s full service rental locations nationwide and Hertz’s premium car rental locations and operations in China.

The rapidly growing China Auto is “a perfect fit” for Hertz to partner with, Mark Frissora, chairman and chief executive officer of The Hertz Corporation, told the media.

The two firms did not disclose the financial details of the deal.

Micro-lending by big banks branded “fake” by think-tank study

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Lacklustre factory data adds to fears of continuing economic weakness

Analysts downbeat over HSBC purchasing managers’ sentiment

Yet another sign of weakness emerged in China’s economic growth story with the publication last month of lacklustre factory activity.

HSBC and Markit Economics reported that their jointly issued index of purchasing managers’ sentiment fell to a preliminary figure of 50.5 in April, down from March’s final reading of 51.6.

Any reading above 50 signals expansion in the manufacturing sector. The 50.5 figure was also below the median 51.5 estimate in a Bloomberg News survey of 11 analysts.

“New export orders contracted after a temporary rebound in March, suggesting external demand for China’s exporters remains weak,” Qu Hongbin, chief economist for China at HSBC, noted.

In a report accompanying the data, “Weaker overall demand has also started to weigh on employment in the manufacturing sector.”

Manufacturing plays an important role in shaping domestic policy and its strength is considered a reliable barometer of the global economy because of the nation’s role as a powerhouse exporter.

In addition, any continued weakness in manufacturing could spur concerns about rising unemployment, HSBC noted.

Qu said the manufacturing report could help prompt policy changes.

“Beijing is expected to respond strongly to sustain the economic recovery by increasing efforts to boost domestic investment and consumption in the coming months,” he said.

Other economists were downbeat about China’s chances of a economic comeback. “This paints a picture of a painfully slow recovery for China’s manufacturing sector,” Yao Wei, an economist with Société Générale in Hong Kong, told Bloomberg.

“The government needs to help translate the easy liquidity conditions into real growth.”

Iceland becomes first European nation to sign free trade pact

Iceland last month became the first European country to sign a free trade pact with China.

On 15 April, after nearly six years of talks, Iceland’s foreign minister, Össur Skarphéðinsson, and China’s commerce minister, Gao Hucheng, signed the deal, which will lower tariffs on a range of goods.

The deal came at the start of a five-day visit to China by Icelandic Prime Minister Jóhanna Sigurðardóttir, who met with President Xi Jinping and Premier Li Keqiang.

The visit highlighted Iceland’s attempts to advance its ties with the Mainland, which could help speed up the island nation’s efforts to emerge from its economic collapse in 2008, when its three largest banks defaulted on US$85 billion in debt.

“It’s important for Iceland to conclude pacts like this to strengthen trade following the economic collapse,” the South China Morning Post quoted Sigurðardóttir as saying.

The new agreement is “a major event in China-Iceland relations,” Li told Sigurðardóttir, The Daily Telegraph reported.

“It also signals the deepening of our relationship, especially our economic relationship which has been lifted to a new height,” Li said during talks.

The removal of tariffs on Iceland’s fishing exports, which range from 8 percent to 12 percent, will give Icelandic exporters access to China’s rising middle class, which has started consuming more upmarket products such as cod, said Skarphéðinsson, The Wall Street Journal reported.

Trade between China and Iceland grew by 21.1 percent last year to US$180 million, according to the Chinese Ministry of Foreign Trade.

Iceland exports mostly fish to China and imports a wide range of Chinese products, from ships to shoes. China is now Iceland’s fourth biggest importing country.

China Mobile ends Taiwan agreement

China Mobile, China’s largest telecom carrier by number of subscribers, last month cancelled a 2009 agreement to acquire 12 percent of Taiwan service provider Far EasTone Telecommunications, the companies announced.

The proposed agreement ended because some “conditions” for the deal had not been met, China Mobile announced in a statement on 18 April.

A new agreement for business cooperation has replaced the lapsed deal, the companies said in a statement to the Taiwan Stock Exchange.

China Mobile agreed in 2009 to buy the stake in Far EasTone, Taiwan’s third-largest telecom carrier by number of subscribers, for about NT$17.8 billion (HK$4.63 billion).
**IPO candidates withdraw amid CSRC investigations**

A total of 76 Chinese companies lining up for initial public offerings withdrew their applications between 25 and 29 March amid the latest round of IPO investigations by the China Securities Regulatory Commission. Most of the IPO candidates, who pulled out before a 31 March deadline, are from the machinery manufacturing, solar, software and chemical industries, the Xinhua news agency reported.

**Appetite for acquisitions weakening, says report**

New research from Grant Thornton found that just 18 percent of Hong Kong businesses plan to grow through acquisition in the next three years, down from 26 percent last year. According to the Grant Thornton International Business Report, 80 percent of local businesses confirmed that they have no plan to execute an acquisition, which is significantly higher than their counterparts in the Mainland (60 percent).

**Housing deal collapses over bank, tax changes**

A US$1.7 billion deal between Lennar Corporation, a home builder based in the United States, China Development Bank and Chinese Railway Construction Corporation collapsed last month after changes in bank leadership and U.S. tax laws that complicated negotiations. Lennar had been in talks with China Development Bank for more than a year about a loan to finance about 20,000 new homes and offices at two former naval bases in San Francisco, the South China Morning Post reported.

**Municipal debt total might be double the official figure**

Local governments in China may have 20 trillion yuan of debt, almost double the official 2011 audit figure, former finance minister Xiang Huaicheng said on 6 April at the Boao Forum in Hainan. The combined debt of the central government and the provinces and cities might now be more than 30 trillion yuan, Xiang said at the forum.

**Judge dismisses claim against Deloitte over audit of Longtop**

Firm “noisily” quit after uncovering fraud

Deloitte’s China unit won the dismissal of a securities fraud claim that accused it of inadequate audits of Longtop Financial Technologies, a Chinese software company listed in the United States.

In a federal court in Manhattan last month, Judge Shira Scheindlin dismissed allegations brought by investors in the Chinese company against Deloitte, which claimed that the firm issued audit opinions giving Longtop a clean bill of health even though it was aware of potential problems, reported Reuters.

The judge concluded that the investors had not provided enough evidence to prove that the accounting firm had any motive to commit fraud or that it made any material misstatements in its audit opinions of Longtop. In her 40-page opinion, Scheindlin wrote that the plaintiffs’ complaint “reveals that [Deloitte] was a target of Longtop’s fraud and that [Deloitte] ultimately uncovered Longtop’s fraud, and noisily resigned.”

According to Reuters, Daniel Berger of Grant & Eisenhofer, a lawyer for the plaintiffs, expressed disappointment with the ruling.

Longtop has been at the centre of an accounting scandal since May 2011, when Deloitte quit as the Chinese company’s auditor. The accounting firm alleged that Longtop had tried to forge its financial statements and stop Deloitte staff from leaving the company’s premises when the discrepancies were discovered.

In September 2011, the Securities and Exchange Commission asked a federal court to force Deloitte to produce its audit work papers related to the case. However, Deloitte resisted, citing Chinese secrecy laws.

**VAT reform trial set to be rolled out nationwide from 1 August**

China’s State Council announced last month that the value-added tax pilot programme, which replaces a business tax, will be expanded across the country from 1 August.

The expansion will complete the first stage of the VAT pilot programme being carried out across China to the transport and services sectors. The programme will expand to include enterprises in the radio, film and television industries, Premier Li Keqiang said during an executive meeting of the council.

It is estimated that the widened reform will reduce tax burdens by around 120 billion yuan this year, according to a statement issued by the council after the meeting. The reform is intended to further boost business vitality, help enterprises find new growth and increase employment and residents’ income to promote sustainable and healthy development, the statement said.

China introduced the reform in Shanghai last year to avoid double taxation. It was later expanded to another 11 regions, including Beijing, Tianjin and Shenzhen. The reform programme “sends a signal that the government is speeding up fiscal reform,” Liu Shangxi, a researcher with the Ministry of Finance, told China Daily.
Restructuring

TURNING THINGS AROUND

Illustrations by Alan Ho
Restructuring offers an alternative to insolvency in terms of returns to creditors and can successfully reposition a company when its business model changes. George W. Russell reports on the prospects of a boom in Hong Kong and the Mainland and how CPAs can help

When Chinese solar energy panel maker Suntech Power Holdings reported in March that it had defaulted on a US$541 million bond payment, it caused ripples among the Mainland’s small but growing restructuring community.

The Chinese government soon announced that an intermediate court in Wuxi had appointed an administration committee, consisting of local government representatives as well as accounting and legal professionals, to lead a restructuring of Wuxi Suntech, the company’s largest operating subsidiary.

The decision to restructure – rather than order a liquidation or bailout – signals a new awareness of the restructuring process in China. “The China restructuring market is just emerging,” says Derek Lai, a financial advisory partner at Deloitte in Hong Kong and a Hong Kong Institute of CPAs member.

Chinese companies have been historically resistant to outsiders offering restructuring options. “Many listed entities are run very much as private companies and are reluctant to let external parties come in and tell them what to do,” says Bruno Arboit, a managing director at FTI Consulting and an Institute member.

However, there have been signs in the Mainland for some time that restructuring is being more widely employed by the country’s most prominent companies, especially as rapid economic growth has eased.

Alibaba Group Holding, China’s biggest Internet commerce company, recently announced it would reorganize its seven business groups into 25 units. Meanwhile, China COSCO Holdings, the country’s largest shipping line, is trying to raise 27 billion yuan through a restructuring of its assets, while retailer Gome and sportswear brand Li Ning are restructuring to trim ballooning debts.

Successful restructurings will encourage others to follow suit, Institute members say. “The market will mature as more restructurings are successfully carried out,” notes Greg Keith, managing director of Grant Thornton’s restructuring team in China and an Institute member.

In China, corporate debts are restructured according to provisions of the Enterprise Bankruptcy Law of 2007, although bankruptcy is not always the end outcome. In Suntech’s case the law is being implemented to facilitate an orderly rescue process for both Wuxi Suntech and its creditors.

Kenneth Yeo, an Institute member who is director and head of specialist advisory services at BDO in Hong Kong, explains: “The primary goal is to restructure Wuxi Suntech’s debt obligations, while continuing production and operations.”

**Cautious approach**

Lawyers, who work closely with accountants in turning around Mainland companies, say restructuring is preferable to insolvency in many cases. “We would try to avoid insolvency procedures under Chinese law because the courts are not dependable,” says Howard Lam, a partner with the Freshfields Bruckhaus Deringer law firm in Hong Kong.

In addition, many Chinese companies are structured through special purpose vehicles held offshore in Caribbean tax havens such as the British Virgin Islands or the Cayman Islands, which further complicates the proceedings. “We [have to] go outside and work on offshore holding companies and through that take control of the assets in China,” Lam explains. However, Lam notes that the Caribbean jurisdictions and Bermuda have recently modernized their liquidation procedures, making the process more straightforward.

There are further pitfalls for foreign creditors during restructurings in China. “Creditors [legally] have equal rights but local creditors tend to get paid first,” says John Lees, an Institute member who is managing director of JLA Asia, a Hong Kong consultancy that specializes in turnarounds and restructuring. “It can be chaotic.”

Thus, the international business community is looking at the recent Suntech default – and subsequent restructuring proposal – with great interest. “Suntech is the first default case involving offshore debt in recent years in China and it will be important to see how the
Restructuring

claims of offshore bondholders will be treated," says Gary Lau, managing director of corporate finance at Moody’s Investor Service in Hong Kong.

Restructuring experts say it is possible that Suntech will be merged into a healthier competitor, or taken over by a state-owned enterprise. “One solution we’ve seen in China is that the government will be actually helping to engineer who will come in as a white knight,” says Ted Osborn, who leads the business recovery services practice at PricewaterhouseCoopers in Hong Kong. “Often it will be a state-owned enterprise that takes over the debt and ensures that factories keep running and people keep being employed.”

CPAs taking control

In Hong Kong, the formal route to restructuring involves starting liquidation proceedings. “Most countries have a formal restructuring law—we don’t,” says Lees at JLA.

The process is usually started by a creditor, who applies to a court for a winding-up order under section 193 of the Companies Ordinance, resulting in the appointment of a provisional liquidator, whose main function is to ensure the security of the company’s assets.

“This section was not intended to be used as a corporate restructuring legislation,” cautions Annie Chan, managing director of Mazars Corporate Recovery and Forensics in Hong Kong and an Institute member. “Therefore, there is no guarantee that the court would grant such an order as sought.”

Once an order is made, Hong Kong’s Official Receiver is appointed provisional liquidator. (There are also voluntary winding-up petitions available to directors of companies under section 228 of the Companies Ordinance.)

The Official Receiver then must decide whether to call a meeting of creditors to appoint a private-sector insolvency practitioner—usually an Institute member—to act as provisional liquidator.

“If a company is distressed and its creditors are pursuing it, it’s often necessary to appoint a provisional liquidator because that creates a moratorium,” explains Stephen Briscoe, managing director of Briscoe Wong Ferrier, a specialist corporate advisory service provider. “You have a court order that effectively stops creditors from pursuing the company while it tries to restructure itself.”

The accountant’s role as provisional liquidator is to go into the company and effectively take control. “He will retain certain elements of senior management as the provisional liquidator is not going to be hands-on day-to-day at every level of the company,” says Briscoe, who is also a member of the Institute’s restructuring and insolvency faculty executive committee. “His role is to ensure the company runs smoothly as possible, safeguard the assets of the company and then prepare the company for a new investor.”

If the restructuring has been successfully completed, instead of proceeding with the liquidation process, the provisional liquidator then seeks a stay of the winding-up proceedings.

“We make do with what we have and there has been a number of successful restructurings in Hong Kong through existing formal processes,” notes Arboit at FTI Consulting, who is also chairman of the Institute’s restructuring and insolvency faculty executive committee.

Rewriting chapters

Informal restructuring avoids the liquidation process, but creditors, such as banks, need to agree to provide the company’s managers and shareholders time to effect certain operational and financial changes that would then enable the company to settle or compromise debt.

The usual route is through a Scheme of Arrangement process, as set out in section 166 of the Companies Ordinance. Hong Kong does not have a proceeding similar to Chapter 11, which refers to a portion of the United States Bankruptcy Code that permits debtors to reorganize a business. (Similar processes include administration in the United Kingdom and Australia and judicial management in Singapore.)

The U.S. business bankruptcy system is more forgiving towards the debtor, allowing it to continue its business while formulating a reorganization plan with its creditors.

A Chapter 11 filing prevents creditors from taking further action against the insolvent company to collect debts.

Unlike Chapter 11, Schemes of Arrangement do not create a moratorium from creditors and do not require a settlement to be offered to employees.

Attempts to reproduce a Chapter 11 framework in Hong Kong have foundered because of government insistence that employees’ full entitlements be accorded priority through a dedicated trust account. Chapter 11 limits employees’ claims to US$10,000 and ranks them behind lawyers and accountants in the order of payment priority.

In the absence of a formal corporate rescue procedure, a Scheme of Arrangement process is the only practical tool available to facilitate the rescue and restructuring of distressed companies in Hong Kong.

However, informality doesn’t come cheaply in Hong Kong. “The Scheme of Arrangement process involves a lot of court time and therefore it is also very costly in comparison with the corresponding

Ideally, Hong Kong would have an explicit restructuring law rather than just working around the insolvency options.
process in the West,” says Chan at Mazars, who is also a member of the restructuring and insolvency faculty executive committee.

The process starts when a company in financial difficulties, with the assistance of professional advisers, puts together a proposal to be presented to the company’s creditors and shareholders. Such a proposal will usually seek to permit the business to continue operating, often under new ownership, and compromise the company’s debts.

Ideally, Hong Kong would have an explicit restructuring law rather than just working around the insolvency options. “Essentially, restructuring allows companies to provide creditors with a better return than they would achieve via an insolvent liquidation,” says Arigen Liang, a Hong Kong partner at Walkers, an offshore law firm.

Experts say Hong Kong could benefit from a concept called “provisional supervision,” which would emphasize corporate rescue and which has been under discussion for about 15 years. The Hong Kong government is expected to issue the latest consultation paper this year to address the details of provisional supervision.

The paper will also include insolvent trading provisions, which would allow the imposition of personal liability for the debts of the company on directors who know their company is likely to go into liquidation but who allow it to continue trading.

“Australia, for example, places personal liability on directors where they are deemed to have traded [while insolvent],” notes Rupert Purser, director of Hong Kong-based consultancy Turnaround Asia and an Institute member. “As a consequence, restructurings are initiated earlier there, and this drastically increases the prospects of success.”

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### RETHINK, REACT, RESTRUCTURE

Restructuring is used as a term to encompass all legal and corporate reorganizations that involve a company, its shareholders and external stakeholders.

“Any acquisition, disposal, debt reduction, changes in equity structure and interests between the company, shareholders and external stakeholders will involve some form of restructuring,” says Lionel Choong, acting chief financial officer of apparel maker Global Regency Group and a Hong Kong Institute of CPAs member.

Choong, who has worked on restructuring cases in Hong Kong, says the major stages of restructuring include:

- An evaluation of the existing group structure, legal shareholding and non-legal interest of all stakeholders;
- A detailed restructuring plan to consider each jurisdiction in which the group operates with respect to legal, accounting, financial, regulatory, banking, environmental, social, political and industry-specific issues;
- A preparation of a defence as to why restructuring is the best option for all stakeholders.

“It is also essential to consider a back-up plan in case the restructuring is not approved,” advises Choong, who recalls the challenges of restructuring the Tack Fat garment group between 2008 and 2011.

“There were no executive directors during the restructuring period, and the four non-executive directors were responsible for overseeing the integrity of the restructuring plan,” he says, adding that the process relied on the formation of a totally independent audit committee that evaluated and managed the restructuring plan.

Jacky Lam, an Institute member and managing director of Conpak, a boutique consultancy in Hong Kong, says restructuring should be approached as a strategic policy – not merely as a rescue option. “The key is that management should develop a restructuring plan as early as they can and when resources are still rich,” he says.

Lam suggests a company’s management should evaluate a number of factors to avoid a forced restructuring:

- **Competitive advantage:** Understanding why a company stands out from the competition and whether a predominant position can be maintained
- **Market trends:** Having a sense of the future market and the longevity of an existing business model
- **External factors:** Keeping abreast of the influence of policy and politics (for example, the yuan’s appreciation)
- **Strategic development:** Deciding whether to have a strong focus or opting for diversification can make or break a company
- **Crisis management:** A company should always be able to rethink and react quickly to market changes
Hong Kong might have to wait for a similar legal structure. “Those two legs of the legislation will hopefully come before LegCo some time probably in 2015,” says Briscoe, adding that it’s unlikely that any legislation on provisional supervision or insolvent trading, if passed, would hit the statute books before 2018.

**Gearing for action**

In the meantime, Hong Kong restructuring experts are biding their time and building up their skill sets in expectation of a spike in demand, both in Hong Kong and the Mainland. “The Mainland is still many years behind in terms of openly embracing a restructuring process but the market is picking up right now,” says Osborn at PwC. “[Our firm is] involved in two solar situations up in China. And shipping is [also] something that is active right now.”

Purser at Turnaround Asia is another Institute member who expects an uptick in restructuring. He recently co-founded the Asia Transformation and Turnaround Association, a regional industry group that stresses recovery and restructuring over liquidation.

“There is a growing recognition of transformation and turnaround as distinct, although sometimes complementary, to insolvency procedures,” says Purser. “The use of an experienced chief restructuring officer or interim manager can be a very valuable tool in gaining stakeholders’ trust and buy-in to this process.”

One sticking point for the restructuring sector, especially in the Mainland, is selling itself as part of a positive process and not just providing people who clean up a mess. “Restructuring is a positive,” says Keith at Grant Thornton, “in that the negative situation has already occurred before the restructuring experts are brought in.”

The Institute continues to support CPAs who specialize through its restructuring and insolvency faculty, which has more than 500 members. “There are two insolvency courses, introductory and intermediate,” explains Lees, a former chairman of the Institute’s insolvency practitioners committee, the predecessor body of the restructuring and insolvency faculty executive committee. “And we have the diploma course. At that point, you need on-the-job training,” he advises. “Once you’ve done that, you can go for your specialist designation.”

Keith believes that restructuring is one of the more interesting aspects of work offered to CPAs in Hong Kong. “You’re actively involved in making decisions,” he says. “We look for people who have lateral thought, common sense and a capacity to build relationships and demonstrate empathy.”

“We look for people who have lateral thought, common sense and a capacity to build relationships and demonstrate empathy.”
Meet the Council

We must continue to set the bar high

Ex-officio Council member Ada Chung says the profession must adhere to the highest professional standards, ethics and quality.

The Hong Kong Institute of CPAs has set itself a number of laudable goals in its sixth long-range plan. Of those objectives, the maintenance of the highest professional standards, ethics and quality are those closest to my heart as a Council member.

It is important that the Institute, as a professional body, serves the business community in the public interest and contributes to the sustainable development of Hong Kong as a leading international business and financial centre. Indeed, this ambition is enshrined in the Institute’s vision.

As a Council member and a member of the Institute’s standards and quality accountability board, I work closely with other Council members and members of the profession to ensure that the oversight and review processes taken by the Institute are timely, adequate and proper.

Accountants nowadays are faced with an ever-changing business and regulatory environment. I appreciate that work pressure is mounting on the profession and it is important that the Institute should strive to provide adequate support to its members, both technically and professionally.

Such support might take various forms, including, for example, an enhancement of members’ expert skills in their respective areas, a development of new skills or even an improved work-life balance.

In my professional capacity as the Registrar of Companies, I am working towards the implementation of the new Companies Ordinance in the first quarter of 2014. I will continue to liaise with other Council members and the Institute in the process. In particular, the Companies Registry aims to work hand in hand with the Institute in arranging seminars to discuss provisions of the new law and in devising new practice notes or guidelines.

As I am also an ex-officio member of the Financial Reporting Council, I take pride in working with other members of the Institute’s Council, as well as the FRC and my colleagues in the Government, on reviewing the present audit regulatory framework, with a view to ensuring that the local regulatory and practising environment for the profession meets international benchmarks and is appropriate in the local context.

To consolidate Hong Kong’s position as a leading financial and business centre, it is imperative that our city continues to be served by world-class accounting professionals who are underpinned by a robust regulatory regime for auditors.

I have been a member of the Institute for more than 20 years and thus have had the benefit of observing the Institute’s growth and increasing prosperity over the years. Our members’ profile has also been changing. I would advocate for more attention and resources to be given, in particular, to the needs and development of our younger members.

I see accounting as a lifelong career. While we cherish our success stories, it is important that we engage and empower the younger generation to maintain the core values, professionalism and virtues of the profession. Together we can achieve our goals.

Ada Chung is also Hong Kong’s Registrar of Companies.
“We need to ask ourselves, as Council members: do we fight hard enough for our members?”

Ronald Kung
Elected Council member

The Institute should fight for its members

Accountants should be more powerful than currently, says elected Council member Ronald Kung

Take a look at these figures: nearly 35,000 members, almost HK$200 million cash in bank accounts, two whole floors of owned property and the only accounting body in Hong Kong with statutory backing. With all these mouth-watering resources that are the envy of other professional bodies, we should be powerful.

Other than pure numbers, let’s take a look at the people. Those who had served on our Council include the chairman of the Securities and Futures Commission, the chairman of the Hong Kong stock exchange, the chairman of the Financial Reporting Council, a member of the Central Policy Unit and a secretary of the government. What other professional body has so many of its Council members taking part in ruling Hong Kong?

But how come so many accountants still feel that we are the underdog? Why do we feel that our prestige is the lowest among all other professionals? Who can get accountants to stand tall?

If you ask me what the primary job of the Institute is, I would say it is to fight for the interests of our members. If we don’t fight for members, who will? But we need to ask ourselves, as Council members: do we fight hard enough for our members? In Council meetings, do we speak for the members, or do we even speak? Every two years when we go again to run in the Council election, do we dare tell members exactly what we individually have done for the benefit of members? Or do we simply say some empty words?

In the battlefield of clause 399 of the Companies Bill (now section 408 of the Companies Ordinance), we lost. I don’t think our members saw the Institute fighting hard enough. Now, another battlefield is audit regulatory reform. We can easily lose again if we don’t have the willpower to win, or if we still have the defeatist thinking of: “It’s a done deal, there is nothing we can do.” No, we are more powerful than we think! If we can gather the support of 35,000 members, obtain the trust and understanding of other stakeholders and convey the message clearly to the public, we can create a fair regulatory framework for our members and society. Accountants are part of society, and our interests can go hand in hand with the wider public interest.

After seven years in the Council, I am still working to fight for our members. I speak, and I speak loudly. One day when you see me silently sipping my cup of coffee, I hope it is because accountants have the power they rightfully deserve, and I have nothing to fight for anymore.

Ronald Kung is also a coffee lover at The Coffee Academïcs.
Good communication can carry us forward

The profession belongs to us all and members can help it advance, says elected Council member Nelson Lam.

I am a great believer in communication – and I practice what I preach, from speaking publicly about accounting topics to writing books and columns in newspapers.

Fans of the theatre might recall that the famous musical Les Misérables features a touching and stirring anthem entitled Do you hear the people sing? In my case, it’s the invaluable voices of peers in my profession that I find motivating.

One stanza of that song includes the lines: “When the beating of your heart echoes the beating of the drums, there is a life about to start when tomorrow comes!” In our case, the Institute’s Council can’t echo the heart and voices of our members, unless we try our best to hear their hearts and their voices.

I have been fortunate enough, over the past decade, to have spoken at more than 500 seminars and workshops. They have proven to be great opportunities to share my experiences, expertise and views with my peers, as well as – more importantly – hear theirs too.

For our members, our Institute and our profession, it is all a continuous process of learning and improvement. At all times the Council must seek ways to improve the level of communication between the Institute leadership and the members so we can enhance the Institute’s governance and the service the Institute provides to members.

The accounting profession doesn’t belong only to the Institute, or its president or its 23 council members. It belongs to all accountants and indeed to the people of Hong Kong.

I support the need to hear and understand the voice of all members, as well as the leadership’s commitment to being directly accountable to members by sharing all aspects of policy.

In addition, I believe we must have a strong focus on our students, because the next generation of accountants represents the future of our profession.

“Will you give all you can give so that our banner may advance?” the singers in Les Misérables ask. Likewise it is crucial for us to advance as a profession and for us to seize the chances offered to us.

Change, in the shape of regulatory reform, is inevitable and we can make the most of it. Future regulation of the accounting profession in Hong Kong must be aligned with the global standards and continuous international development.

We must not only maintain Hong Kong’s reputation as a premier international financial market in the world, but do all we can to advance the city’s position. We can do our part by enhancing the professionalism and competitiveness of our members. Professional accountants are rational, independent and reliable. These are three characteristics, among others, that distinguish our profession.

We should be proud of our own individual achievements, but we also need to work together as a single constituency to create a better accounting profession and thus contribute to a better business environment and society. If we band together, we will fulfil our own potential and also do our important bit to create a better Hong Kong.

Nelson Lam is also founder of Nelson and Company, CPA and Nelson Consulting Limited.

“The Council must seek ways to improve the level of communication between the Institute leadership and the members.”

Nelson Lam
Elected Council member
In the second part of a series commemorating the Institute’s 40th anniversary, A Plus looks at the 1970s and how the accounting profession rose to the challenge of increasing local regulations and the first rumblings of capitalism in the Mainland.
“Accountants had a common feeling of unity and togetherness that they had experienced for the first time in decades.”

The first day of 1973 was no ordinary Monday. Britain, Hong Kong’s then colonial master, had joined the European Economic Community (later the European Union) that day after a decade of rejection, reflection and hand-wringing.

In Hong Kong, another influential and important association had begun – that of the 500 or so original members of the Hong Kong Society of Accountants, which had been created that day by a statute passed late in the previous year, and which would later become the Hong Kong Institute of CPAs.

While the mood in London was that of concern and uncertainty, in Hong Kong there was an air of confidence. On the first trading day of the year – Wednesday 3 January – the Hang Seng Index jumped more than 3 percent to close at a record 869.14 points. It was the beginning of a surge that would set new records again and again but not without some missteps along the way.

Certainly, the accountants were happy with their new organization. “The formation of the Society was an extremely good thing,” concludes Sanford Yung, then the senior partner at Coopers & Lybrand in Hong Kong, looking back on that New Year’s Day. “It was timely and very necessary.”

After early meetings in the offices of Peat, Marwick, Mitchell & Co. – where Society founding president and driving force Gordon Macwhinnie worked – and a short occupation of the old Baskerville House in Duddell Street (courtesy of the Inland Revenue Department), the Society moved into its own premises at the Leeloong Building in Queen Victoria Street, adjacent to the Central Market.

Administrative costs were kept low: Henry Yuen, the registrar, read his own mail and replied to it personally. He had a secretary to assist him with appointments and, shortly afterwards, a clerk to handle filing. Yuen convened the first Council meeting on 30 January 1973.

The Society had taken seven years of planning and 1973 marked not only a culmination of efforts but also the chance for a new beginning. “A major challenge was the need for the Society to build up training, accreditation and examination facilities,” recalls K.K. Yeung, an original member of the Society who still holds a practising licence.

Yuen agrees that developing an accreditation system was the most pressing challenge. “We had to start the examination system almost immediately,” he says. “That was a real nightmare.”

The seven papers of the examinations covered just two of the five sections required for the professional course and the complete course would not be offered until 1975. But Hong Kong was on its way to producing its first locally qualified certified public accountants.

“Accountants had a common feeling of unity and togetherness that they had experienced for the first time in decades,” says Yeung of the period around the first exams. “It was the beginning of a common purpose among accountants, whether from big firms or small firms, whether Western or local.”

Rise and fall

As 1973 progressed, however, the Hang Seng Index continued to rise steadily. The index reached a peak of 1,774.96 points in March of that year. (It had stood at just 150 points at the end of 1969.)

“It was a meteoric rise,” recalls Marvin Cheung, a past president of the Society. “There was a lot of frenzy going on. Property prices began to really escalate.”

Y.C. Jao, retired professor of economics at the University of Hong Kong, wrote that given the Hang Seng Index average price-earnings ratio of 101 in March 1973, Hong Kong share prices were “exorbitantly overpriced.”

By 1973, Hong Kong had four stock exchanges for a population of 4.2 million, three of which had been set up in the previous four years. Sensing danger ahead, the government set up the Securities Advisory Council and enacted the Stock Exchange Control Ordinance 1973, ending the establishment of new bourses.

In March 1973, forged share certificates were encountered for the first time. More would turn up during the course of the year, bearing the names of Jardine Matheson, Orient Overseas Containers, Mai Hon Enterprises and many other companies. That month, the Hang Seng Index began to slide.

At the same time, the Bretton Woods system that had been created in 1944 to govern international monetary and exchange policy among the world’s major economies (and which created the International Monetary Fund) began to unravel after the departure of West Germany and Switzerland. Then the United States cancelled the direct con-
vertibility of the U.S. dollar to gold.

The oil crisis – in which American aid to Israel prompted an embargo of the West by Arab petroleum-producing countries – began in October 1973 and aggravated an already precarious world economic situation. The Hang Seng Index plunged to 500 points by July.

By November 1974, stock markets around the world had crashed, with the Hang Seng Index falling more than 90 percent from its high point to 150.11.

**Hopeful Hong Kong**

Meanwhile, the Society was finding its feet in its first year. Its first annual general meeting was held on 26 September, just four days before the statutory deadline set in the Professional Accountants Ordinance. The Society’s first council was elected at that meeting: consisting of six practising accountants and four from business.

Overseas accounting firms, seeing new opportunities in Asia while Europe and North America still stumbled, hung out their shingles in rapidly growing Hong Kong. T. Brian Stevenson, who would later become Society president, had been sent to the city as the inaugural head of Turquand Barton Mayhew (later part of Ernst & Young) in 1974.

It wasn’t just British accountants flocking to Hong Kong. Wong Poh Weng, from Malaysia, was seconded to Coopers’ Hong Kong office just two years after qualifying. “A lot of firms were starting up at that time,” he remembers. Nelson Wheeler, of which Wong is now managing partner, opened its Hong Kong office – its first outside Australia – in 1975.

Consolidations were also occurring even back then: Lowe, Bingham & Matthews became a member of Price Waterhouse International in 1974. (The firms had worked closely together in the region since the 1940s.)

There was plenty of room for local firms, too: Robertson Hasell launched in 1974, as did Charles Chan, Ip & Fung (now Crowe Horwath Hong Kong). Andrew Ma & Co., now AMA CPA, launched in 1976.

It was also a good time to be a sole practitioner. Catherine Schenk, a University of Glasgow professor who studies Hong Kong’s economy, wrote that in 1975, 96.5 percent of manufacturing establishments employed fewer than 100 workers. Those small- and medium-sized companies needed accounting services and couldn’t afford to pay the likes of Price Waterhouse or Coopers & Lybrand for simple tax services.

That opened the door to small- and medium-sized practitioners who were then, as now, the bulk of firms registered with the Institute. Patrick Wong, an Institute member, had worked in Coopers’ tax department for four years when he decided to strike out on his own in 1975. His firm, Patrick Wong & Co. CPA, is still going strong after 38 years.

“By the fourth year of running my own firm, I was earning more than a Coopers partner,” he says. But it wasn’t just about the money, he adds. “I did not want to be an employee. I wanted to be in charge of my own destiny. I felt free. I could come in at 11 a.m. and leave at 1 p.m. if I wanted to.”

**Huge demand**

Meanwhile, the economy was booming and Hong Kong wasn’t producing anywhere near enough qualified accountants to fill the need. The Hong Kong government, then, as now, one of the largest employers of accountants in the city, was desperate.

“I understand that quite a few of the approved posts of accountants have been vacant for some time now due to recruitment problems,” legislative councillor Lee Quo-wei told the chamber in October 1974.

In response, the government eliminated the two lowest pay ranks for government accountants. It was to no avail, however. “Even with the minimum point raised in this way, the accountant-general tells me the response to his efforts to recruit accountants in Hong Kong has not been all that enthusiastic,” Financial Secretary Philip Haddon-Gave reported to the Legislative Council in November 1974.

**HIGH-PROFILE PHILANTHROPY**

Most accounting firms have a roster of pro bono clients, some of which date back decades. Indeed, many of the profession’s leading lights played significant philanthropic roles from the earliest days of the Society.

For example, T. Brian Stevenson, a keen rugby player in the 1970s, became treasurer of the Hong Kong Rugby Football Union in 1976 and has been its president since 2001.

However, he recalls declining requests to volunteer time in government institutions, nongovernment organizations and trade and commerce groups when he started up Turquands Barton Mayhew in 1974.

His excuse was the same on each occasion: “Frankly, I’m really busy.” But the busier he became, the more demands on his time were requested. Eventually he took his concerns to a pillar of Hong Kong’s business community, the tai pan of leading property developer Hongkong Land.

“The tai pan – or big boss – listened to his complaint and explained that community work was a Hong Kong tradition. “He said that it had always been appropriate to be involved because it gives you a chance to contribute back to the community that clearly you have been successful in.”

Stevenson, who became the Hong Kong Society of Accountants’ president in 1996, took the advice on board and began to devote his own time to charities and other organizations, but also encouraged his staff to do the same.

“I would always earmark young, up-and-coming accountants for various organizations,” he says.

**History of giving**

As Stevenson puts it: “Accountants have always had a pretty high profile in Hong Kong in community matters.”

For example, Sidney Gordon, senior partner of Lowe, Bingham & Matthews, cofounded The Community Chest charity in 1968. Gordon Macwhinnie, the Peat, Marwick, Mitchell & Co. senior partner who was such a driving force behind the Institute’s establishment, helped finance the Hong Kong University of Science and Technology when he was chairman of the Royal Hong Kong Jockey Club, and was treasurer of the Hong Kong Heart Foundation.

Contrary to their sedentary reputation, accountants, like Stevenson, have also been significant contributors to Hong Kong’s sporting heritage, another characteristic that really took off in the 1970s. Macwhinnie, for example, was captain of the Royal Hong Kong Golf Club from 1967 to 1970.
However, accountants were flocking to the private sector and expatriates were still very much in demand. “Lowe, Bingham & Matthews was a very local firm but having said that there were quite a few Scotsmen in it and every summer they would go back to the glens and throw a net over a few people and drag them out to Hong Kong,” is how the Hong Kong-born Ken Morrison describes the recruitment process.

Morrison himself had joined Coopers & Lybrand’s Glasgow office in 1972. Given a choice between transferring to Edinburgh or Hong Kong at double his Scottish salary, he seized the chance to return to his birthplace. “Honestly it was just the excitement,” Morrison says, though adding, “as a Scot I had to consider the money.” Hong Kong, he says, “was a terrific opportunity. It was a dynamic place with a real can-do spirit.”

And as the Hong Kong economy slowly improved after the 1973-74 economic crisis, the U.K. domestic situation worsened. By 1974, parts of British industry were working a three-day week to conserve electricity, made scarce by coal miners’ strikes. Inflation had reached 25 percent by 1975. “The 1970s were challenging times for the U.K.,” recalls Morrison.

For Chinese accountants, Britain presented other problems, such as advancement through the ranks. “My manager told me, with some embarrassment, that the highest rank an Asian had achieved was deputy manager,” recalls Eric Li, then a supervisor with Coopers & Lybrand in London and later a president of the Society. “There was not much in terms of prospects.”

In contrast, Chinese accountants in Hong Kong felt that the international firms were fair to them and promoted on merit. “I was essentially treated as an expatriate,” says Cheung, then a young accountant at Peat Marwick. “I was promised that my prospects of advancement within the firm were no worse than any expat.”

For some time, Hong Kong would closely follow the British accounting profession. “There was a strong connection,” Morrison remembers. “We used to adopt the U.K. standards pretty much lock, stock and barrel without modification, just slightly later, in Hong Kong.”

At the same time, Hong Kong was modernizing its corporate legislation. The Companies Ordinance 1975 required, for the first time, that the auditor state whether a true and fair view is given in the balance sheet, profit and loss account and, in the case of group financial statements, of the state of affairs of the company and its subsidiaries. “It required much more disclosure in company accounts,” says Morrison.

Roles redefined

The 1973-74 stock exchange crash had prompted some soul-searching about Hong Kong’s role as a financial hub. The city was ridden with insider trading (a term then barely understood in Hong Kong), in the grip of organized crime syndicates and suffered from pervasive corruption.

In one of the better-known cases, Peter Godber, then deputy district commissioner of police in Kowloon, had fled the colony after his secret accumulation of HK$4.3 million in ill-gotten proceeds had been discovered. (He was extradited in 1974 and convicted in 1975.)

One of the first significant pieces of legislation that accountants, as an organized Society, contributed comments to was the Securities Ordinance 1974, of which one provision required compulsory registration of securities dealers and another created the Securities Commission with strong statutory powers.

Another was the Protection of Investors Ordinance 1974, which provided a penalty of up to seven years’ imprisonment and a HK$1 million fine for anyone convicted of inducing investors to buy stocks through fraudulent or reckless means.

The laws were put on the books but legislative councillors demanded a proactive attitude from regulators. “We shall need an assurance that the controls and safeguards will be enforced; that there will be no repetition of the stock exchange frenzy of 1973; and that the man-in-the-street will be debarred from speculating with his hard-earned money on the commodity exchange,” James Wu, a LegCo member and then head of the Federation of Hong Kong Industries, declared to the chamber in October 1975.

Accountants did not escape censure. “Some accountants’ facile reports accompanying new issues should be eyed very much more coldly than they were in the last stock exchange boom,” John Bremridge, a legislative councillor who would later become
Gordon Macwhinnie addressing the 7th CAPA conference in Bangkok.

financial secretary, said in March 1976, recalling the 1973-74 turmoil. “The line between fact and fiction was frequently crossed, and this should not happen again.”

Macwhinnie, addressing the AGM in 1973, said Hong Kong had become too obsessed with speculation – its twin idols were the Hang Seng Index and foreign exchange rates. “There has been too much emphasis on the stock market and the money market,” he told members, calling for a return to Hong Kong’s traditional strength: trade.

At that point, the Society had received a call for help, one that would encourage its members to look beyond Hong Kong to the fortunes of the wider world.

Looking outward
The autumn of 1973 had seen the Society make its international debut in Bangkok, attending the triennial Confederation of Asian and Pacific Accountants conference. The Society’s members had agreed the new organization should be represented at this international event but cash was hard to come by.

It was decided that members should pay their own way: deals were struck with hotels with members offered bargain rates of up to HK$100 per night.

The CAPA trip was generally regarded as a success. The Society’s delegates worked together as a team and Macwhinnie suggested Hong Kong would host the next but one conference in 1979. (Colombo had been named as host city for the 1976 edition.)

Within a year, Sri Lanka – racked by ethnic strife, high inflation and food and fuel shortages – had dropped out. The CAPA secretariat, then based in New Zealand, called the Society offices to ask if Hong Kong could step into an emergency and take over.

The Society’s administration and finance committee considered the request: the Society lacked funds and manpower and reservations had been expressed as to whether it could successfully hold a conference with five years of planning, let alone two years.

Macwhinnie pointed out that the CAPA event would do much to put Hong Kong on the map. After some deliberation, the Council took the plunge and agreed to be the host.

Macwhinnie’s term as president had come to an end on the last day of 1974. Peter Poon was elected in his stead but Macwhinnie, assisted by Poon, Far East Stock Exchange chairman Ronald Li and Leslie Gordon, who became president of the Society in 1977, oversaw the conference organization.

The event was a huge hit, despite a brush with disaster as Typhoon Iris flicked her tongue close to the city on the conference eve.

The event was a huge hit, despite a brush with disaster as Typhoon Iris flicked her tongue close to the city on the conference eve.

A popular Chinese drama, The King of the Monkeys Subdues the White-Bone Demons, was performed to entertain participants at the 8th CAPA conference in Hong Kong.
DAY IN THE LIFE
OF A 1970s AUDITOR

Given advances in technology since the 1970s, accounting might be a little less personal these days. “There was more direct involvement by walking the client’s factory floors to check the stock,” recalls T. Brian Stevenson, who became president of the Hong Kong Society of Accountants in 1996 but in the early 1970s was a young auditor at Lowe, Bingham & Matthews.

Otherwise, he muses, the role was not too much different than it is now. “I think the daily life in many ways was the same as it is today. Basically, for most staff working on audit clients, you were usually at their premises [and spent] minimal time in the office.”

Travelling around Hong Kong changed dramatically in 1972 with the opening of the Cross-Harbour Tunnel, enabling Kowloon-based workers to catch buses and taxis to work on Hong Kong Island, where the large accounting firms were located. Another transport revolution occurred at the end of the decade, with the first Mass Transit Railway line opening in 1979.

One thing that hasn’t changed is the long hours. “It was heads down, tails up, all the time,” Stevenson recalls. “It was nothing but work because you were building a business,” he recalls, referring to his decision to leave Lowe Bingham in 1974 to open the Hong Kong office of Turquands Barton Mayhew, a predecessor firm of Ernst & Young.

Stevenson says one major difference in terms of working life was less reliance on technology. There were no personal computers back then – a few mainframes had been set up in Hong Kong in the early 1970s – and the fax would not be popular until the end of the decade.

However, accountants were early adopters of technology in the Crown colony: In 1974, accountant members of the Hong Kong Computer Society formed the Computer Audit Club.

Of course, the 1970s saw the pocket calculator emerge as the business accessory of choice for accountants, even though Chinese-language trade publications featured advertisements for abacuses (sometimes with training courses thrown in) throughout the decade.

Expatriate accountants were lured to Hong Kong by salaries that could be double that of their home countries and taxed at less than half the rate. Ken Morrison, now chairman of Mazars but then a Coopers & Lybrand auditor, remembers renting a 2,000-square-foot flat for HK$2,000 a month in the mid-1970s.

Some sole practitioners remember the 1970s fondly. “Life was so much easier,” recalls Patrick Wong, who left Coopers & Lybrand to found his own firm in 1975. “Standards were not so high and competition was not so keen.”

The main issue for SMPs was finding clients. “It was not permitted to advertise or canvass for clients,” says Wong. “You could only sit in your office and wait for them.”

Wong said he earned about HK$70,000 in his first year as an SMP. It might not sound like much, “but you could purchase a flat with a year’s salary back then,” he says. “Now, 12 months’ income wouldn’t buy you a toilet.”
US$1 billion for the first time in 1978, largely because of Chinese imports of American wheat and other grains.

Foreign investment began to flow into China in 1979, creating a need for new laws to define the rights and responsibilities of the parties to the new joint ventures between Chinese and foreign enterprises. The Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures was enacted on 1 July 1979.

That year, Shenzhen, just across the border, was designated as the nation’s first Special Economic Zone. After years of quiet subsistence, an unexceptional village in southern Guangdong was turned into a deregulated laboratory for experiments in Western capitalism.

For Hong Kong, economic ties with China were on the front burner for the first time since the civil war. “There was an early wave of Hong Kong businessmen going to China to start manufacturing facilities and opening factories and shops,” remembers Eric Li. “There was a lot of effort. Property and manpower were the factors: cheap land, cheap labour.”

The sentiment in both Hong Kong and abroad was that a growing Chinese economy would need accountants. By 1979, Coopers & Lybrand had signed an agreement to train 50 Chinese government bookkeepers in the US. Generally Accepted Accounting Principles.

The then-chairman of Coopers, Norman E. Auerbach, told media the move was aimed at preparing China for joint-venture agreements with foreign businesses. “The need for this training became evident as China moved toward more extensive joint-venture activities with foreign enterprises,” Auerbach told The Wall Street Journal.

Guided by Peat, Marwick, Mitchell’s senior partner in Hong Kong, Denys Connelly, who would become Society president in 1980, the March 1979 meeting of the firm’s international advisory board, held in New York, set up a China panel to follow events in China and stay alert for international advisory board, held in New York, set up a China panel to follow events in the future years.

Not everyone could share the enthusiasm for China’s potential, however. “I remember going to the border in 1978 and just looking through the fence,” recalls Wong Poh Weng. “At that time Malaysians were not allowed to go into China.”

$$\textbf{HIGH STANDARDS SET FROM START}$$

From the very beginning, the Hong Kong Society of Accountants set an example for technical excellence. The professional standards committee was set up in June 1973, comprising representatives nominated and appointed by all the approved accounting institutes that had branches or representatives in Hong Kong.

“We had to keep up the standards and the framework,” says Louis Wong, who became assistant registrar of the Society in 1976 and then registrar in 1979. “To be a regulatory body we needed to have rules and regulations.”

Until then, implementation of standards was largely left to the large firms. “One of my first jobs as a brand new qualified accountant was to help Peat Marwick internally to understand new requirements,” recalls Marvin Cheung, who became Society president in 1990.

“I was asked to do a booklet to explain to my colleagues because I was fresh from [doing] my exams in the United Kingdom and we were following the British standards.”

In 1974, the committee issued eight statements on professional conduct and six statements on professional standards, closely following international accountancy standards in order to build up a high and uniform standard for all members, both practising and non-practising. The Society became an associate member of the International Accounting Standards Committee, the predecessor of International Accounting Standards Board, in 1975.

The Society’s own committee did much to enforce a more regimented accounting system on Hong Kong companies. “The standards were tightened up,” recalls Peter H.Y. Wong, who became president of the Society in 1984 and was re-elected in 1985. “You learned from your mistakes,” he adds, referring to the ad hoc standard-setting process of the time.

An exposure draft on auditor independence was issued to members for their comments and suggestions in 1974, and much of the draft was incorporated into the statements. “Ethics and operating in an independent and professional way became part of the air you breathed and the water you drank,” says Ken Morrison, now chairman of Mazars.

Louis Wong noted that in the early days, accounting and auditing standards and professional conduct and ethics statements were all presented as a single document. They would not be separated until the 1980s.

In 1975, six statements on professional standards were issued with the support of members, followed by three standard statements and one practice guideline in 1976 and five standard statements and a practice guideline in 1977.

In 1978, many commercial firms and financial institutions subscribed to the Society’s statements and guidelines for the first time, an encouraging sign showing the Society’s standing was receiving increasing attention and support from the business community. Amendments to standard statements were announced in 1979 to align with market development, including exemptions granted to licensed banks, insurance companies and charitable and non-profit entities from compliance with some statement requirements.

The decade closed with a complete review of all the standard statements.
Although ethnically Chinese, Wong felt like an outsider when it came to understanding the politics of the Mainland. “At that time I was one of the minions and I didn’t really know what was going on in China,” he says. “People at the partner level would have known but I wasn’t part of that.”

**Changing times**

Accounting in Hong Kong continued to evolve. The Professional Accountants Ordinance was amended in 1977. “In the light of experience in the past four years, the Society now considers that certain amendments are necessary in the interest of the general public and the accountancy profession,” Haddon-Cave told LegCo.

The first amendment required holders of practising certificates, necessary for conducting statutory audits, to be ordinarily resident in Hong Kong and to have some knowledge of local law and practice.

The second amendment provided for the registration of firms of accountants on condition that all Hong Kong partners hold valid practising certificates.

The third amendment required members of the Institute of Cost and Management Accountants and the Chartered Institute of Public Finance and Accountancy to pass examinations set by the Society before they could apply for practising certificates.

Minor amendments to other bills affecting the profession followed that year. The Urban Council (Amendment) Bill 1978 clarified voting rights for accountants, while the Companies (Amendment) Bill 1978 removed the limit of 20 persons on partnerships.

Also in 1978, Macwhinnie, though only 55 years old, was ready to retire from Peat’s and concentrate on his interests outside the accounting profession. He had been an enthusiastic member of the Royal Hong Kong Jockey Club since the 1950s and had been elected a steward in 1974. In addition, Fok quit as registrar at the end of 1979.

The baton would be passed as the Society entered the 1980s, but such departures did not slow the profession’s momentum. Indeed, it would go from strength to strength in the new decade.
Success ingredient
Sidney Chan,
COO, World Gold Council

Good as gold
Soaring popularity as well as lighter regulations have made Sidney Chan’s job promoting gold as an asset class in China easier, as Mark Graham reports

Photography by Grey Chen

The increasing popularity of gold in the Mainland – whether as bullion or jewellery, or whether as an inflation hedge or safe haven asset in troubled economic times – is good news for Sidney Chan.

Chan, chief operating officer of the World Gold Council for the Far East region, recently joined an industry that has enjoyed steady – and heady – growth since the Chinese government allowed the public to trade in gold about a decade ago, when the Shanghai Gold Exchange was established.

Last year, China accounted for sales of 832 tonnes of gold, becoming the second largest consumer after India. A further loosening of regulations by the People's Bank of China last year, whereby banks were given the chance to enter the gold retail business through interbank over-the-counter trading on the Shanghai Gold Exchange from December 2012, has seen a further surge. Sales of gold in China are estimated to be increasing by 24 percent a year.

Chan, who previously worked at information technology companies Cisco Systems, hiSoft Technology International, Nortel Network, Compaq and Digital Equipment, has now completed a year in his new post. He sees it as an opportunity to apply his in-depth knowledge of high technology to a more traditional field.

“What excites me is that it is a little bit different from the high-tech industry where people want to know if they can get a return in a year or two years,” he says. “The World Gold Council's mission is to help stimulate the demand for gold for the industry as a whole.”

A significant part of the council's jewellery strategy involves using digital marketing and social networking tools to promote sales of gold jewellery. To help encourage demand, the council persuades investors that putting money into the precious metal is a wise, safe and potentially profitable move.

The London-based organization, whose members include major gold-mining companies, works within the investment, jewellery and technology sectors. It also lobbies governments.

In China, the council is planning a marketing strategy that seeks to give gold a more modern image, stressing that it can be used for contemporary jewellery – not just wedding jewellery as it is traditionally viewed.

“In China, the younger generation of consumers don’t always have such a positive view of gold as their parents,” says Chan. “We are trying to make it more fashionable, stressing the story behind gold. Jewellery retailers typically focus on shorter-term returns and don’t want to spend money on programmes that influence longer term consumer behaviour, so it is the kind of thing we are doing for the industry.”

At the council, Chan can also bring to bear his encyclopedic knowledge of the Mainland market and its way of doing business. One of his toughest jobs in recent years, before serving as chief financial officer of Cisco Systems China for three years, was preparing the Dalian-based hiSoft (now known as Pactera Technology International) for its initial public offering on the NASDAQ exchange in New York – an assignment that involved restructuring the corporate accounting system policies and procedures to comply with the United States’ accounting rules and the Foreign Corrupt Practices Act.

“I was hired to head up their global finance team and prepare the company for an IPO. One of my challenges was changing the way the company looked at compliance, control and the whole finance and accounting system,” Chan says.

“I had done a lot of different things but never taken a company public before.

“You have to approach the job very differently, getting the management team to change the control and compliance mindset from being a China-based company to a U.S.-listed company was my number one priority. You also have to demonstrate to the auditors, external lawyers and investment advisers that sufficient controls are in place and numbers are reliable before they would sponsor the company for the IPO filing.”

The massive task was completed in a mere nine months but the flotation had to be postponed because of the sombre investment mood that followed the onset of the global financial crisis in 2008. When the company finally did list, it was an instant hit with investors, becoming one of the best IPOs of 2010 in terms of returns.

Diversified portfolio

The recession has worked to the advantage of gold, given its reputation as a safe haven. The price of gold more than doubled from the global financial crisis to a record high of US$1,895 per troy ounce in September 2011.

Although prices have softened since – gold traded at US$1,444 on 30 April – Chan has long-term optimism about the precious metal.

“Gold allows you to preserve your capital [and] reduce your risk,” he says.

Chan is based in Beijing, a choice that perhaps reflects the future of gold. After all, China itself has increased its gold holdings to the most recent officially announced stocks of 1,054 tonnes, which would represent about 2 percent of its US$3 trillion foreign currency reserves.

“In recent years, the Chinese government has been calling for the general population to invest in gold and it believes this is the most effective way to increase the nation’s overall gold holdings.” Chan says. “The Chinese consumers’ enthusiasm towards gold is strongly supported by the country’s quick urbanization, increasing middle class and historical cultural affinity, as well as gold’s role as a savings proxy.

“From an individual perspective, it is a good diversifying factor and we encourage anyone’s portfolio to consist of a minimum of 5 percent in gold.”

The snappily dressed Chan conducts meetings in a boardroom that features a selection of gold statues and trinkets that are
While virtually every civilization values gold – as an asset, decoration or industrial commodity – China and India have a particular obsession with the metal. Both cultures consider gold an ideal gift for brides and babies and regard the precious metal as an easily convertible asset even though it pays neither dividend nor yield.

Indeed, gold consumption in the Mainland surged 9.35 percent year-on-year to 832.18 tonnes in 2012 – still short of India, the world’s number one market, but closing the gap. The subcontinent’s consumption reached 860 tonnes in 2012, but that figure represented a fall of 11 percent over the previous year.

Consumers in both countries have been energized by the recent – and largely unexplained – declines in the gold price. On 15 April, the New York spot price fell 9.2 percent to US$1,395 an ounce – its lowest level in two years – and began its sharpest two-day drop in three decades. Central banks holding gold reserves saw more than US$550 billion of value wiped out in those 48 hours.

In India and China, however, consumers saw the slump as a buyer’s opportunity. Caishikou, one of China’s largest gold dealers, announced it had sold out its entire stock by 22 April, while the Bombay Bullion Association reported April sales 30-40 percent above forecasts.

The knock-on effects of falling gold prices reverberated beyond Beijing and Bangalore. Barrick Gold Corporation, a major Canadian producer, shed 25 percent of its share value in a week. OceanaGold Corporation, a smaller New Zealand miner, lost 50 percent of its market capitalization over the same period. “Gold mining stocks look even more distressed than they did in 2008,” says Christopher Wood, chief equity analyst at CLSA Asia Pacific in Hong Kong. The reasons for the sharp drop remain unclear. “It is… bizarre that gold should have cracked,” Wood muses.

For its part, the World Gold Council blamed speculators. “It has become increasingly clear... that the fall in the gold price was triggered by speculative traders operating in the futures markets,” Aram Shishmanian, the council’s London-based chief executive officer, said in a statement on 18 April.

Analysts dismissed such an explanation, suggesting that the sell-off echoed declines in other benchmark commodities such as crude oil and copper. Others blamed weaker-than-expected Chinese first-quarter economic data or rumours that the Cypriot central bank would sell off its gold reserves to ease the country’s balance of payments.

Yet other analysts suggested the slump underscores deeper problems that presage another global slowdown. “The... evidence clearly points to the gold crash being the omen bearer of a deeper liquidation,” says Josh Ayers, president of Paradarch Advisors, a capital markets research company in Dallas.

Wood at CLSA advised that it might be a good time to buy gold. That recommendation would carry a proviso: that a Chinese (or Indian) buyer hasn’t snapped up the last ingot in the shop.

“It is a good diversifying factor and we encourage anyone’s portfolio to consist of a minimum of 5 percent in gold.”
those days, records were generally kept in filing cabinets, not on hard drives or floppy disks.

Chan’s efforts were rewarded with a promotion to vice president of finance. Then a job offer came from Digital Equipment Corporation, an industry giant in the same elite stratosphere as IBM at that time.

Joining the computer company, says Chan, meant a chance to learn more skills and experience different disciplines. “They figured the way to compete with IBM was not just on technology. They wanted to get into the finance department and into the mindset of the chief financial officer and controllers, to help them sell their systems. “Digital picked around 25 to 30 senior finance people and trained them on products and selling techniques. I was fortunate enough to be selected into that training programme, and I learned a lot about the selling side, understanding customer requirements,” recalls Chan, who then moved to California and started selling with the sales team there. “It was great. I enjoyed those three years as it enabled me to gain invaluable exposure into the selling side and customer’s mindset, which prepared me well in my subsequent finance career developments.”

A later promotion with the company meant a move back to Hong Kong to oversee the finance function of the newly set up Asia-Pacific system integration services division. The job involved, among other duties, training project managers in finance so that they had a clear picture of the cost-revenue relationship.

In that job, Chan gained more and more exposure to China and, when Compaq later acquired Digital, the new bosses targeted him as the perfect person to oversee operations in the country from Beijing.

That was in 1998 and – apart from a short spell in Hong Kong – he has been in the capital ever since.

Today, he lives close to the iconic CCTV tower, a short downtown commute from the World Gold Council corporate offices in the Raffles City Beijing Office Tower. Chan has watched China grow to be the number two economy in the world and its capital metamorphose from a dour centre of bureaucracy to a thriving – and very polluted – metropolis of 20 million people.

Despite the drawbacks, Chan enjoys living in Beijing and points out its cultural riches and the relatively slower pace of life compared with Hong Kong.

“For me, this job is a once-in-a-lifetime opportunity,” says Chan. “The gold industry is slower in comparison to the high-tech industry, but the more I find out, the more it excites me and the reason is that gold plays such a role in the whole economy.”
Even on one of the happiest days of her life, Lusan Hung spent much of her time talking on the phone about business.

On 16 January 2005, Hung, director of Higuma Consulting, a Hong Kong-based tax advisory company and a member of the Hong Kong Institute of CPAs, had her hands full trying to close a client deal. That same day, she also gave birth to a baby boy.

“I was still working through the deal in the hospital,” she recalls. “Three or four weeks later, I was feeding my baby and doing work on the computer at the same time... You have to when you’re running your own company.”

Running a business and watching over a growing family at the same time is too much for some. However, many career mothers, like Hung, are dedicated to doing what it takes to handle the challenges of working professionally and being devoted mothers.

Hung now has two sons, aged 12 and eight. When her first son was born, she was a tax partner at Grant Thornton. She later retired from the partnership to set up her own company. She says the secrets to successfully combining work and motherhood are good organization skills and hard work. A dollop of good luck helps, too.

“I struggled quite a bit,” she admits. “On the other hand I was quite lucky with client support so work was manageable and I was able to spend as much time as I needed with my baby.”

Nowadays, Hung uses her time wisely...
Spending quality time with her children is a priority for any mum, no matter how heavy her workload is. Jemelyn Yadao talks to Institute members who juggle professional commitments and motherhood

Photography by Sunny Yu

“And because you build up this confidence in yourself, the kids will see that they can be just as independent.”

May 2013
clients, Law is kept busy with a number of government appointments, including serving on the boards of the Hospital Authority and Create Hong Kong, a government funded agency supporting the development of creative industries in Hong Kong.

Because of this, Angele rarely calls her mum at the office. “Unless it’s an emergency,” Law says. “I know her schedule but she doesn’t know mine, so it’s best I find the time to call her. If there’s something she’s really proud of, she will call me,” she says with a laugh.

While some working mothers admit to feeling guilty for not spending more time with their children, Law has what she calls “working mother pride.”

“This is your child knowing that what you’re doing is something meaningful,” she explains. “She knows that as a working mother I’ve already done my best to give her the most attention, and I think that is even more valued because she knows that not everything comes easily.”

Law says her friends know she is extremely close to her daughter. “I’m proud of my relationship with her,” she says. “Over recent years, I’ve seen that she’s more of a counsellor for me than the other way around.”

One of the main reasons they have maintained a healthy mother-daughter relationship, she says, goes back to when she started teaching Angele one of her passions: Chinese writing.

Despite how busy she was, Law made sure that helping her daughter, then at primary three stage, write Chinese sentences for school was her number one priority when she wasn’t at work.

“I made sure that I would sit with her and brainstorm what we can write about and by
Moments to share
Inspired by her own struggles as a career mum, Joanne Hung frequently shares her experiences with other working parents during informal counselling sessions at work. “This field is very demanding so I want to share my experiences and tips with other working mums and dads to help them develop their career,” says Hung, director of assurance services at BDO and an Institute member, who has a nine-year-old daughter and a four-year-old son.

Hung recalls that the year her daughter was born brought both happiness and hurdles. “At that time the firm was growing so we didn’t have sufficient staff to handle cases,” she says. “We had to spend a lot of time at work so I couldn’t look after my children.” At the time Hung was a junior manager at another firm.

Adding to that stressful time was Hung’s natural desire to develop her career. This drove her to actively find a way to perfect the balancing act for both her and her kids. “I try to bring some work home and then when my girl sleeps I go back to work. You just sacrifice your sleeping time,” she says. “It’s a learning curve for me. After a peak season, you find some way to make sure all your assignments can be done smoothly.”

Despite the long hours, Hung manages to still be around for family dinners and by her daughter’s side while she practices the piano. Part of this is down to her sharing the load with her husband. “Sometimes if I need to go home late, dad needs to pick up the responsibilities. If dad has a business trip, then I take up his responsibilities,” she explains.

Changed priorities
Even with a government appointment and a management meeting scheduled on the same day, nothing could keep Agnes Chan from her son’s recent graduation. “It clashed with a few events… but I just had to say no to them. On my agenda, that day was assigned to my son.”

Chan, regional managing partner of Hong Kong and Macau at Ernst & Young and an Institute member, has learned to prioritize tasks, allowing her to focus on what’s important, including the needs of her 22-year-old son, Vincent Mok.

What makes an unflappable working mum, she believes, is delegation: building up a good support team at work and at home. “I had a lot of support from my parents, my sister who’s a full-time mum and my domestic helper who’s been with me for 22 years – as old as my son,” she says.

At the firm, Chan credits her team of colleagues who supported her during times when family emergencies meant she had to be out of the office. “I found with delegation, my to-do list gets shorter and shorter very quickly,” she says.

Like many other working CPA mums, Chan has faced inevitable difficulties, including feelings of guilt when leaving behind her child because of business trips. Travelling, she points out, was particularly rough in the 1990s when instant messaging programs were less widely used.

“I remember when Vincent was three, I returned to Hong Kong and he opened the door, looked at me and then shut the door… He couldn’t recognize me after a couple of weeks..."
Mother’s Day

“I found with delegation, my to-do list gets shorter and shorter very quickly.”

Vincent Mok and Agnes Chan

Vincent Mok and Agnes Chan

[of travelling]. That was sad,” recalls Chan.

However, happier memories outweigh the bad. Nowadays, Chan and her son spend quality time together in the kitchen, cooking and baking. “He loves eating. That’s why he loves cooking,” laughs Chan. “Now he’s a very good cook.”

Chan welcomes the dual roles of a busy mother and CPA. “[It] brings diversity to my life and brings a lot of challenges and interesting events that I can participate in, making life challenging and rewarding overall.”

Baby talk

As well as having motherhood substantially change home and work life, new mum Tracey Liao has the added challenge of dealing with her husband being away working in China.

Fortunately for Liao, she is managing to strike a good balance between work and her one-year-old daughter, with the support of more than just her family. Her colleagues at her firm have adjusted well to helping Liao combine her work and family responsibilities, making her life a little easier.

“I found with delegation, my to-do list gets shorter and shorter very quickly.”

Vincent Mok and Agnes Chan

[Image 35x25 to 541x482]
“After they knew I was going to have a baby, they tried to rearrange some of my portfolio to help me cope, because I was doing a lot of travelling to China due to the client work,” says Liao, assurance partner at PricewaterhouseCoopers and an Institute member. “I talked to my division head and I think he has done a very good, caring job for me.”

For Liao, being a working mum has even brought her closer to clients who now talk both business and babies with her. “The clients actually share [some advice]... it breaks the ice and also makes the relationship closer, because you share more about family matters, not just work,” she says.

Despite the role of a new mum feeling like an around-the-clock job, lessening hours of sleep, Liao is enjoying every minute of it. “My baby brings a lot of fun and joy,” she smiles.

Liao takes every opportunity to be with her child. “At night I bring my baby into my room because I want to spend more time with her as during the day I’m not with her,” she says. “Even though she wakes up in the middle of night, I still enjoy it.”
Hong Kong’s new Companies Ordinance was gazetted on 10 August 2012, following the passage of the Companies Bill by the Legislative Council on 12 July 2012. The new ordinance is expected to become effective in 2014 after subsidiary legislation is enacted. It will supersede the existing Companies Ordinance (Cap. 32). In this article, we discuss some of the significant issues and changes introduced by the new ordinance.

**Financial statements**

Part 9, Division 3 of the new ordinance sets out detailed and complicated requirements for a company’s financial reporting periods, introducing new terms such as “primary accounting reference date” and “first accounting reference period.” In simple terms, the requirements of the new ordinance regarding financial reporting apply to financial years beginning on or after the commencement date of the new ordinance.

This principle that most accountants find familiar with applies well to simple cases when companies regularly prepare annual financial statements. Problematic cases may occur if a company does not prepare annual financial statements on a regular basis according to the requirements of Cap. 32. A literal interpretation does not suggest the possibility of an early application of the new ordinance.

The following examples suppose that the commencement date of the new ordinance is 1 January 2014. For a company that prepares annual financial statements ending on 31 December each year:

- the financial reporting requirements of the new ordinance do not apply to the company’s financial statements for the year ending 31 December 2013. These financial statements are subject to Cap. 32; and
- the first financial year under the new ordinance is the one that begins on 1 January 2014.

For a company prepares annual financial statements ending on 30 September each year:

- the financial statements for the year ending 30 September 2014 are subject to the relevant sections of Cap. 32. This is because the financial year began before and ends after the assumed commencement date of the new ordinance. According to Schedule 11 Paragraph 78 of the new ordinance, relevant sections of Cap. 32 continue to apply even though Cap. 32 is superseded by the new ordinance; and
- the first financial year under the new ordinance is the one that begins on 1 October 2014.

**Reporting exemptions**

Part 9, Division 2 of the new ordinance sets out detailed requirements on reporting exemptions. In general, a company falling under the reporting exemption:

- is not required to prepare financial statements that give a true and fair view. Its financial statements are only required to comply with applicable accounting standards. The notion of “true and correct” in Cap. 32 is removed;
- may exclude one or more of its subsidiaries from its annual consolidated financial statements, provided that such exclusion complies with relevant accounting standards;
- need not disclose in its financial statements the remuneration of auditor;
- shall not prepare summary financial report in accordance with Part 9, Division 7 of the new ordinance.

**Eligible companies**

In general, the following private companies qualify for the reporting exemption:

- a “private company” which is not a subsidiary of another company and does not have a subsidiary, provided that all members of that company agree in writing that the reporting exemption applies;
- a “small private company”; a private company is considered small if any two of the following three conditions are satisfied: (a) its total annual revenue does not exceed HK$100 million; (b) its total assets do not exceed HK$100 million; and (c) the number of employees does not exceed 100; and
- the holding company of a “group of small private companies”;
- an “eligible private company”, provided that: (a) at least 75 percent of members agree the reporting exemption applies in a general meeting; and (b) no member objects at the general meeting or at least six months before the end of the financial year; A private company is an “eligible private company” if any two of the following three conditions are satisfied: (i) its total annual revenue does not exceed HK$200 million; (ii) its total assets do not exceed HK$200 million; and (iii) the number of employees does not exceed 100;
- the holding company of a “group of eligible private companies.”

A “small guarantee company” and the holding company of a “group of company limited by guarantee” also qualify for reporting exemption.

Given that HKFRSs and the HKFRS for Private Entities are fair presentation frameworks intended for financial statements giving a “true and fair” view, those companies taking
advantage of the reporting exemption under the new ordinance may adopt a compliance framework instead.

The existing reporting framework for small- and medium-sized enterprises would be a suitable tool, subject to appropriate amendment of its scope to make it in line with the new ordinance’s reporting exemption.

Financial reporting standards
For the first time in Hong Kong, financial reporting standards have the so-called “statutory backing,” as the new ordinance explicitly requires compliance with applicable accounting standards.

It is almost certain that the Hong Kong Institute of CPAs would be a body prescribed by the relevant subsidiary regulation of the new ordinance for setting applicable financial reporting standards.

This however adds uncertainty as to whether a company governed by the new ordinance is allowed to adopt IFRSs or not. Unless the International Accounting Standard Boards is also a prescribed body under the new ordinance, adoption of IFRSs alone by a company governed by the new ordinance may end up in an obvious technical non-compliance.

Financial year and its alteration
Cap. 32 does not have an explicit requirement on the length of the financial reporting period. In reality many accountants treat the 18-month limit for holding a company’s first annual general meeting as the limit of the financial reporting period permitted by Cap. 32.

The new ordinance sets very specific requirements on the financial reporting period and its alteration. In general:

- the financial reporting period of a company should be 12 months;
- an alteration of the financial year shall not result in a reporting period longer than 18 months;
- an alteration of the reporting period for a current financial year shall not be made if the required period for laying out the financial statements at a general meeting has expired;
- the financial period shall not be extended if the company had extended an earlier financial period within the past five years, unless the change is made to coincide with the holding company’s financial year or is approved by a member’s resolution.

Consolidated financial statements
Cap. 32 suggests that a holding company shall, at the minimum, prepare consolidated financial statements as well as its own balance sheet and some additional notes on profit or loss at the company level. The new ordinance, however, requires that the directors of a holding company “must instead prepare” consolidated statements.

While this may suggest that an entity level balance sheet and the related note on company’s profit or loss are no longer required by the new ordinance, Schedule 4 clarifies that the holding company must include in the notes to annual consolidated financial statements the following:

- the holding company’s statement of financial position;
- the movement in the holding company’s reserves (and no other notes on the holding company’s statement of financial position is required).

More importantly, the new ordinance allows a holding company, which is itself a partially owned subsidiary of another body corporate, not to prepare consolidated financial statements if:
- the directors notify members in writing six months before the end of each financial year that they intend not to prepare consolidated financial statements;
- no request for consolidated financial statements is made to the directors by a member in writing three months before the end of each financial year.

Together with the effects of reporting exemption, it is expected that many meaningless consolidations of the financial statements of intermediate holding companies of private groups or unnecessary qualifications in auditor’s reports would no longer happen.

Shares with no par value
Cap. 32 requires companies to ascribe a par value to their shares. The new ordinance, however, requires that shares in a company shall have no nominal value.

The abolition of par value renders the concepts “share premium” and “capital redemption reserve” redundant. They become part of the company’s share capital under the new ordinance.

These changes also apply to shares issued before the start of the new ordinance. Section 37 of Schedule 11 requires that all share premium and capital redemption reserves that exist at the start date of the new ordinance shall become a part of the company’s share capital.

Notes to the financial statements
Cap. 32 sets out various disclosures to be made in the notes to financial statements in its main body and schedules. The extent of disclosure requirements is significantly reduced in the new ordinance, as evidenced by the relatively simple Section 383 and Schedule 4.

Paul Yeung is technical director and Benny Tang is audit manager of PKF Hong Kong.
the financial crisis the incurred loss model was criticized for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur. Consistent with requests from the G-20, the Financial Crisis Advisory Group and others, the IASB and the Financial Accounting Standards Board in the United States have been working jointly to develop a more forward-looking impairment model that reflects expected credit losses. The proposals build upon the expected credit loss model previously agreed between the IASB and the FASB, but it has been simplified to reflect feedback received from interested parties. The FASB has published separately for public comment an alternative expected credit loss model. The two sets of proposals have overlapping comment periods.

Audit and assurance

Institute comments on IAASB’s exposure draft
The Institute made a submission to the IAASB on its exposure draft on ISA 720 The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon.

The Institute was concerned with the proposed expansion of the auditor’s responsibilities in respect of other information, embedded within the audit of financial statements, in order to meet the perceived expectations of users. This would widen the expectation gap. Under the revised ISA 720 there would be more than extant “assurance” due to the increased responsibilities and proposed statement to be included in the auditor’s report.

It was considered that the proposed nature and scope of work surrounding other information was ill-defined. The Institute was concerned that the proposals set out in the exposure draft were not entirely an appropriate response to issues expressed by users of financial statements in relation to other information. Furthermore, the Institute recommended the IAASB to reconsider the proposals in ISA 720 and to undertake a separate project of studying whether a separate assurance engagement on other information would serve the needs of the market.

Corporate finance

HKEx publishes consultation conclusions on trading halts
On 15 March, Hong Kong Exchanges and Clearing published consultation conclusions on trading halts. Frequently asked questions relating to trading halts are set out in the HKEx press release. The consultation found a majority of respondents supported the proposal to allow a listed issuer’s inside (price-sensitive) information announcement to be released during trading hours subject to a short trading halt in the issuer’s shares.

TechWatch no. 119 (item 11) and no. 120 (item 11) contain further details about the consultation and the Institute’s submission, respectively.

Implementation of the trading halts proposal will not be earlier than mid-2014. This is to provide sufficient lead time for the market to prepare, as implementation will involve significant changes to market participants’ systems and operations.

SFC to enhance the regulatory regime for electronic trading
On 22 March, the Securities and Futures Commission released consultation conclusions on proposals to enhance the regulatory framework for electronic trading. The proposals, generally supported by respondents, provide clarity to intermediaries on the standards that they are expected to meet when they conduct electronic trading.
Key aspects of the regulatory regime include:
- Management and supervision – the responsibility to ensure compliance rests with the responsible officers or executive officers and the management of the intermediaries;
- Adequacy of system – electronic trading systems should be subject to testing and meet regulatory standards with respect to reliability, controls, security and capacity; contingency measures should be put in place;
- Record keeping – proper records on the design, development, deployment and operation of electronic trading systems should be kept;
- Risk management – risk management and supervisory controls to monitor orders and trades should be put in place.

The new regime, which includes amendments to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Fund Manager Code of Conduct, will come into effect on 1 January 2014. The guidance note on Internet Regulation issued in March 1999 will be repealed on the same date.

SFC to enhance the regulation of non-corporate listed entities
On 27 March, the SFC published consultation conclusions on proposals to enhance the regulatory regime for non-corporate entities that are listed on the Stock Exchange of Hong Kong. Given the general support of respondents, the SFC will proceed with the proposals and make appropriate recommendations on the legislative amendments to the government. The changes will help enhance investor protection and market transparency for all listed entities, whether they be companies or other types of business organization.

The main points of the conclusions are:
- Extend the SFC’s supervision and investigation powers, the requirement to disclose price sensitive information, the market misconduct provisions and the disclosure of interests provisions under respective parts of the Securities and Futures Ordinance, to expressly cover non-corporate listed entities;
- Clarify that, for listed depositary receipts, the overseas issuer whose shares and units are the underlying ones is the “issuer;”
- Exclude entities whose only listed securities are debentures from the disclosure of interests regime.

Legislation and other initiatives
Institute submits further views on restricting public access to directors’ particulars
In responding to the first phase consultation on the draft Companies Bill in 2010, the Institute did not see any pressing need to change the status quo in relation to the disclosure of directors’ particulars.

While the Institute understands the rationale for the subsequent proposals to not include directors’ full personal identification numbers and residential addresses on the public register – the details of which it is proposed to implement through subsidiary legislation – the proposed regulation would, in practice, hinder the efforts of CPAs to access data that some rely on for confirmation and verification of information relating to audits. It could also impede other fraud investigation and due diligence work which CPAs may be engaged to undertake.

Representatives of the Institute, therefore, requested a meeting with the administration to explain these concerns. The Institute also issued a submission to the Registrar of Companies to request that, if the proposal proceeded in its current form, CPAs, as defined under the Professional Accountants Ordinance (Cap. 50), should be included among the specified types of persons who may be granted access to withheld or protected information (i.e., directors’ full ID numbers and residential addresses), when they are carrying out professional work.
During the financial crisis, the delayed recognition of credit losses associated with loans and other financial instruments was identified as a weakness in the existing HKAS/IAS 39 Financial Instruments: Recognition and Measurement.

The impairment model ("incurred loss model") that exists now delays the recognition of credit losses until a credit loss event occurs. The International Accounting Standards Board proposes to replace the current incurred loss model with an "expected loss" approach, which means that a loss event would no longer need to occur before an impairment is recognized.

The guiding principle of the expected credit loss approach is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments within the scope of the exposure draft. An entity would make an estimate of the expected credit losses on financial instruments each time it prepares a statement of financial position. It would do so by making estimates of the cash flows it does not expect to collect.

This estimate could be applied to an individual financial instrument or a portfolio of instruments, assuming the portfolio comprises instruments with similar credit risk characteristics.

There are three stages proposed in the exposure draft for recognizing expected losses:

**Stage 1:** Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date. For these items, 12-month expected credit losses are recognized and interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).

**Stage 2:** Financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event. For these items, lifetime expected credit losses are recognized but interest revenue is still calculated on the gross carrying amount of the asset.

**Stage 3:** Financial assets that have objective evidence of impairment at the reporting date. For these items, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount (i.e. the gross carrying amount reduced for expected credit losses).

Entities would recognize those expected credit losses at the reporting date as a loss allowance (a contra-asset) against a financial instrument or, in the case of a commitment, as a provision.

As a practical expedient, the exposure draft proposes the following operational simplifications for evaluating whether lifetime expected credit losses should be recognized:

- If the entity estimates that the financial instrument has a low credit risk at the reporting date (for example, it is "investment grade"), then the loss allowance (or provision) is measured at an amount equal to 12 months of expected credit losses regardless of whether there has been a significant increase in credit risk; and
- A rebuttable presumption that a significant increase in credit risk has occurred when payments are more than 30 days past due if no other borrower-specific information is available, without undue cost or effort, to decide whether a loss allowance (or a provision) at an amount equal to lifetime expected credit losses shall be recognized.

An outcome of the approach summarized above is that upon initial recognition of a financial asset, a loss allowance would be established equal to 12 months of expected credit losses.

Subsequently, the 12-month expected credit loss would be replaced by lifetime expected credit losses if the credit risk has increased significantly since initial recognition. In addition, a loss allowance (or a provision) measured at an amount equal to a 12-month expected credit loss would be re-established for financial instruments if there is no longer a significant increase in credit risk since initial recognition.
The exposure draft also proposes a simplified approach for trade receivables and lease receivables, which requires that the loss allowance should be measured at an amount equal to lifetime expected credit losses at initial recognition and throughout the asset’s life for trade receivables that do not constitute a financing transaction.

The IASB believes that the simplified approach provides operational relief for these assets by eliminating the need to:

- Calculate 12-month expected credit losses; and
- Determine when lifetime expected credit losses are required to be recognized.

With respect to a financial asset that has objective evidence of impairment on initial recognition, the exposure draft proposes that an entity is required to include the initial expected credit losses in the estimated cash flows when computing the effective interest rate. In addition, interest revenue from assets that are subject to this measurement approach would be measured using the effective interest method on the amortized cost.

The IASB considers that this approach would more faithfully represent the underlying economics for these financial assets and the benefits of this better representation outweigh the costs in accounting for these assets.

A loss allowance is recognized on these assets at an amount equal to all changes in lifetime expected credit losses since initial recognition (i.e. the exposure draft does not require an entity to recognize a credit loss allowance on initial recognition, as the initial lifetime expected credit losses would be reflected in a credit-adjusted effective interest rate).

The Institute’s financial reporting standards committee is deliberating on the proposals and will be preparing a submission to the IASB. In this connection, the Institute welcomes comments on all matters addressed in the exposure draft. Please provide your comments to Simon Riley, director of standard setting, by 11 June.

Send your questions and comments to commentletters@hkicpa.org.hk. The standard setting team will answer these questions in accordance with its policy, posted on the Institute’s website.
Events
Your guide to courses, workshops and member activities

Taxation

Mainland tax conference will provide members with the latest information on corporate income tax, transfer pricing, individual income tax and indirect taxes. There will also be a panel discussion on the tax implications for supply chain management in China.
CPD hours: 3.5
Language: English
Date: 11 May
Time: 9:00 a.m. – 1:00 p.m.

Financial accounting and reporting

Financial reporting standards refresher course will highlight the requirements relating to financial statement presentation and the recognition and measurement of assets and liabilities. Financial reporting-related topics such as income taxes and foreign exchange will also be covered.
CPD hours: 30
Language: Cantonese
Dates: 13, 16, 24, 31 May and 13 June
Time: Refer to the flyer for timetable

Measuring the fair value of non-tradable financial assets will discuss the challenges involved in assessing fair value, as well as credit risk, market risk and other risk components of complex or non-tradable financial instruments in relation to IFRS 7.
CPD hours: 1.5
Language: English
Date: 15 May
Time: 6:30 – 8:00 p.m.

Auditing and assurance

Trends in corporate accountability and its relationship with sustainability will cover issues that companies face in relation to accountability, particularly in relation to their governance, environmental and social performance. It will also look at related solutions, including the new global reporting initiative’s G4 sustainability reporting guidelines and the integrated reporting framework.
CPD hours: 1.5
Language: English
Date: 28 May
Time: 6:30 – 8:00 p.m.

Audit practice manual application workshops will introduce the revised Audit Practice Manual, which was issued in November 2010, and the new requirements under the Clarified Hong Kong Standards on Auditing, effective for audits of financial statements for periods beginning on or after 15 December 2009.
CPD hours: 7
Language: Cantonese
Date: 28 May
Time: 9:00 a.m. – 5:00 p.m.

Prevention of fraud will discuss how fraud, and its impact on organizations, can be prevented with the implementation of effective controls. The results of the latest global fraud survey will also be covered, as well as the internal auditor’s role in fraud risk identification and red flag monitoring.
CPD hours: 1.5
Language: Cantonese
Date: 29 May
Time: 6:30 – 8:00 p.m.

Business management

Present your best in your next interview will introduce how CPAs can increase their competitiveness. It is part of a series of seminars designed to update members’ soft skills.
CPD hours: 1.5
Language: English
Date: 20 May
Time: 9:30 – 11:00 a.m.

Lean accounting – what the finance team needs to know will explain the concept of lean accounting and how it can help companies gain sustainable and long-term benefits such as profit improvement or revenue increases.
CPD hours: 3
Language: English
Date: 22 May
Time: 6:30 – 9:30 p.m.

Visit the Institute’s website for other programmes and to enrol and pay online: www.hkicpa.org.hk
Twice a year – in April and October – travelling to Guangzhou makes a visitor feel like a modern day pilgrim on the Silk Road. That’s when the Canton Fair is held and the city is packed with Indian, Arab, Persian, Turkish and African traders as well as Chinese middlemen.

The downside is that the city’s streets are crowded, restaurants and bars overflow, and hotels jack up their rates to sky-high levels. Fortunately for the other 10 months of the year, Guangzhou can be a welcoming mix of old and new: colonial mansions are propped next to glittering skyscrapers.

With a population of 13 million and a legacy as one of China’s major trade centres, Guangzhou is a surprisingly orderly melting pot. Visitors will quickly notice a near-absence of motorcycles, banned from the city centre since 2007. Honking horns was outlawed at the same time, with much less effect.

The city’s 10 districts lie either side of the Pearl River Delta. The oldest district of the city, Liwan, includes Shamian Island and is the best-preserved historical area.

Zhujiang New Town has been constructed rapidly as a “new central business district.” Though well served by transport, the area lacks ambience. Nearby cultural attractions include the blob-like Guangzhou Opera House and the award-winning Guangdong Provincial Museum. (The museum’s striking exterior is the high point; avoid dealing with the unpleasant staff, lax opening hours and dour collection.)

Guangzhou has of course spread in all directions: travelling towards Hong Kong, it is difficult to discern where the metropolitan area ends and Shenzhen’s begins. For views of the city, ride the lift to the top of the hourglass-shaped Canton Tower in Haizhu district, currently the tallest structure in China.

The massive city’s lungs are found in the surprisingly picturesque Yuexiu Park. An ancient city wall leads to the 800-year-old Zhenai...
Where to eat

• Dayang Yuan Wei Dunpin Famous double-boiled soup. 160-1, Wenming Road, Yuexiu district. 8332-7931.

• Dong Jiang Haixian Da Jiulou Adventurous food, from crocodile to water beetle. 2 Yanjiang Road, Haizhu district. 8318-4901.

• Guangzhou Restaurant Three storeys of classic Cantonese food. 2 Wenchang South Road, Liwan district. 8138-0388.

• Made In Kitchen Guangdong-style fusion. 8/F May Flower Plaza, 68 Zhongshanwu Road, Yuexiu district. 8332-7688.

• Tekila The city's first and finest Tex-Mex. 2/F Jianshe 6th Road, Tianhe district. 8381-6996.

• Wenji Popular Yixin chicken specialists. 10 Xuanyuan Qiao, Baohua Road, Liwan district. 8172-8887.

Where to stay

• China Hotel, A Marriott Hotel Classy comfort near Yuexiu Park. 122 Liuhua Road, Yuexiu district, 8666-6668.

• Garden Hotel Ageing icon famous for food and hospitality. 368 Huanshi East Road, Tianhe district. 8333-8989.

• J Hotel Compact and convenient accommodation. 105-1 Tianshou Road, Tianhe district. 8540-6955.

• Mandarin Oriental Modern opulence, opened in 2012. 389 Tianhe Road, Tianhe district. 3808-8888.

• W Guangzhou Luxury chain's Mainland debut. 26 Xiancun Road, Tianhe district 6628-6628.

What to see

• Bright Filial Piety Temple Grandest temple in southern China. 109 Guangxiao Road, Yuexiu district. 8108-8867.

• Qingping Market China’s biggest traditional medicine market. Qingping Road, Liwan district.

• Shamian Island Historic precinct. Shamian Island, Liwan district.

• Shangxiajiu Busy commercial pedestrian street. Xiguan, Liwan district.

• Western Han Nanyue King’s Tomb Museum 2,200-year-old mausoleum discovered in 1983. 867 Jiefang North Road, Yuexiu district. 3618-2920.
Chile has a long wine-making history dating back to the 16th century, when the Spanish conquistadors subjugated the native peoples. These invaders, together with Christian missionaries, introduced viticulture into Chile. The country’s wine industry has since developed steadily and now claims to be the fifth largest exporter of wines in the world.

Chile occupies an elongated ribbon-like strip of land on the west coast of South America. Its isolation and huge diversity of climates and landscapes provide a healthy agricultural environment.

The Humboldt Current brings cool breezes to coastal vineyards while the Cordillera de la Costa (Coastal Range) alters the weather patterns for many vine-growing areas, creating a rain shadow and shelter from the winds. The Andean peaks also provide much needed water from melting snow.

Chile’s geographic isolation meant that it was spared the devastations wrought by phylloxera, the aphid-like insect that destroyed most of the world’s wine regions in the late 19th century. To this day, almost all Chilean vines thrive on their own roots, rather than grafted onto rootstocks.

The rapid growth of the wine industry in Chile in recent years has largely been the result of inward investments from European and American winemakers who cooperate with existing Chilean wineries.

As a result, Chilean wines have ranked very highly in international competitions. In the Berlin Wine Tasting of 2004, the first and second place wines were awarded to Cabernet-based reds from Chile, Viña Errázuriz’s Viňedo Chadwick 2000 and Seña 2001.

The Berlin Wine Tasting in 2005, held in Brazil, featured five Chilean wines in the top seven. In the Tokyo Wine Tasting of 2006, Chilean wines won four of the top five rankings. More recently, Chile also claimed five international trophies in the Decanter World Wine Awards 2012, the Oscars of the wine industry. Earlier this year, Viña Concha y Toro – one of Chile’s leading wineries – won the “Most Admired Wine Brand in the World” award from Drinks International.

Chile’s signature red varietal grape, Carmenère, was once widely grown in Bordeaux. Carmenère disappeared from European vineyards in the mid-1800s but was rediscovered among Chile’s Merlot vineyards. Rich with berry fruits, sweet spice and smooth, well-rounded tannins, it produces a pleasing and easy-drinking wine.

Chile’s high-end, iconic wine made from 100 percent Carmenère, Carmen de Peumo, has consistently achieved scores of 95-97 points for its recent vintages from Robert Parker’s Wine Advocate.

Carménère has often been referred to as Chile’s answer to Argentina’s Malbec. Although it only represents 7 percent of vineyard plantations at present, the Chilean government is intent on promoting it as the tool to redefine Chile’s wine identity.

However, the country’s reputation still rests on the strong performance of its Cabernet Sauvignon and Merlot based wines. Cabernet Sauvignon is still regarded as Chile’s star grape and can range from a simple, fruity and friendly easy-drinking wine to big, bold blockbusters with complex notes of tobacco, chocolate, licorice and concentrated fruit. The best will continue to improve and impress for decades.

Merlot, with its unique spicy and green pepper characteristics, remains popular, while white varieties such as Sauvignon Blanc and Chardonnay are grown in the country’s cooler regions.

If you are ready to give Chilean wines a try, here are some recommendations:

**White**
A fresh and light Sauvignon Blanc works well with salads, cheese and almost any type of shellfish. Try the Errázuriz Single Vineyard Sauvignon Blanc 2009 (HK$218, Rare and Fine Wines, Sheung Wan).

A rich, oaky Chardonnay brings out the best in salmon and other oily fish and poultry. The complex Aristos Duquesa Chardonnay 2007 (HK$550, Watson’s Wine Cellar, Central) is a fine example.

**Red**
The dark red Cabernet Sauvignon, the most versatile of the country’s wines with hints of blackcurrant, mint and olive and soft tannins, pairs well with pizza, hamburgers, lamb and beef. One well-priced example is the Arboleda Cabernet Sauvignon 2010 (HK$145, Watson’s Wine Cellar, Central).

The country’s signature Carmenère, rich in cherry and raspberry fruitiness, is a perfect complement to red meat dishes, especially pastel de choclo, a Chilean meat pie made with beef, corn and olives. Its natural fruity spiciness also makes it a good match for Indian curries. Serve with one of the more complex, older vintages, such as the Venitquero Grey Carmenère 2008 (HK$200, Red Wine Cellar, Kowloon City).

**Aloïs Tse** is chairman of Bacchus Fine Wines Group and a past president of the Hong Kong Institute of CPAs.
Drawing attention to your wrists with a beautifully designed timepiece hasn’t always been such a good idea. It was once deemed tasteless for a woman to look at the time or even wear a watch in public. As a solution in 1935, Van Cleef & Arpels created the Cadenas, a gold jewelled watch with a hidden dial that only the wearer could see.

To outsiders this timepiece was merely a high-jewellery clasp bracelet. To the cautious wearer, it featured panels that enclosed and hid the dial. The watch remained in the maker’s collection until the early 1960s and reappeared at the end of the 1990s.

Nowadays, this concept of transformable watches is still in style, with the collections of luxury watchmakers notably rolling out numerous so-called “secret watches.” Today’s secret watches, however, shut dials out in a more direct, innovative way – an approach that definitely aims to grab attention.

Secret dials are usually ticking away beneath bejewelled, exquisitely decorated covers that swivel to reveal the time, just like a lady’s pocket watch. Watch enthusiasts admire not only the concept of watches that can keep secrets, but how these pieces exude both versatility and function.

An example of this can be found in Cartier’s Les Heures Mystérieuses de Cartier collection, a range of 41 pieces, of which 23 represent the metamorphosis of time. Each of these pieces can be used as brooches or pendants as well as watches. Animals associated with Cartier, such as the panther, snake and tropical birds, are present throughout the collection’s design.

Included in this range is the Montre Tortue Secrète de Cartier, which allows the wearer to have both a functional timepiece and glittering jewellery. Sitting on the bracelet is a diamond-paved tortoise with a bejewelled shell. When opened, the shell reveals a silvered dial that has been engraved by hand in a flinqué style using enamel. The hands are rhodium-plated steel, while the white brushed calfskin strap completes the look.

Cartier’s secret panda watch is a captivating creation, which features a three-dimensional white gold miniature panda. The panda’s body, decorated with well-cut rounded diamonds and black sapphires, playfully conceals the dial. Its paws are holding a disc of black enamel, which is part of the studded inner dial. With emeralds for eyes and the stylish dark grey brushed canvas strap, both the animal and the watch are taken to an even more luxurious level. Elegance and creativity is also strong within the feminine Piaget Rose Limelight Garden Party secret watch, which features a rose motif on an easily rotated cover. The openwork diamond-set petals subtly open over the cover entirely. When exposed, the small mother-of-pearl dial sets with 101 brilliant-cut diamonds gleams.

Piaget’s love of developing mysterious watches – and rose designs – doesn’t stop there. The 35mm Piaget Rose watch exhibits the beauty the brand is known for. Its haute joaillerie white gold flower, set with 668 brilliant-cut diamonds, is a magnificent distraction from the secret being figured out. According to the company, the dazzling flower requires around 70 hours of work.

These secret timepieces are showing signs of veering in a more contemporary direction in terms of design. Bulgari’s Mediterranean Eden watch, for example, features an openwork cover in 18-karat matte rose or white gold, with a modern, architectural cut-out pattern, making it a perfect daytime accessory. The 40mm model’s cover, which opens to show a mother-of-pearl dial, can be adorned with pearls, diamonds or coloured stones.

Continuing its tradition of secret watches, Van Cleef & Arpels has created the fascinating Amphitrite Secret Duo. This piece plays with a unique idea in which two rectangular dials (for two different time zones) can be pulled out of one side of the pink gold, black enamel and diamond studded case, just like tiny drawers.

As the popularity of the secret watch continues to escalate, it is no secret that much its approval comes from its ability to cultivate an air of mystery as well as elegance.
Where accounting meets advertising

Some overseas firms are experimenting with gimmicks and slogans. Could that catch on in Hong Kong, asks Nury Vittachi

Until recently, advertising people and accountants had diametrically opposed philosophies. The first was obsessed with differentiating people: “We’re not like anyone else.” The second was obsessed with conforming: “We’re exactly the same as everyone else right down to our procedures, practice manuals and brand of underpants.”

But the advertisers are winning. Hong Kong financial industry professionals now acknowledge that there is a need to be known and regularly sponsor events. (Some may be experimenting with different types of underwear, too, but I don’t think I want to know.)

If we take a peek across the world to North America and Europe, we can get a glimpse of the future.

In the United States, Grant Thornton gave out thousands of temporary tattoos for clients to apply to their bodies. They featured the accounting firm’s name and various prominent words such as “Strengthen” and “Expand.” I think the idea was that people could choose a part of their body and have some cheeky fun with it. In the event, most people put “Expand” on their tummies.

In the United Kingdom, a couple of students started a campaign called BuyMyFace. Ernst & Young bought the rights to paint its yellow and black logo over the young men’s faces for 15 days. (There was talk about making all Ernst & Young staff worldwide wear the logo on their faces. Sadly, this idea was nixed.)

In Hong Kong, many people in the profession shudder at such creative ways of getting their names out, pointing out that “creative” is a bad word in the accounting field.

For conservative types, Grant Thornton scored in the U.S. with a now-famous magazine advert with the tagline: “A passion for the business of accounting.” It showed a black and white picture of a bald, dull-looking, middle-aged man with a red rose in his teeth. It was so different from the usual colourful ads of sultry, elongated women that people actually stopped to look at it.

Another low-key winner was a firm called A.T. Locke, based in three southern U.S. states, whose magazine ads consisted of one line: “You’ve got better things to do than dig through your cash flow statements every day. We don’t.” The implicit message was: “You’re an exciting business person living an intense, full life and you are probably rich and famous. We’re the opposite, so we’ll do your paperwork.”

Maybe the most jazzy accountancy service in the world is Jackson Hewitt (slogan: “Jackson Hewitt’s how you do it”), which has placed its offices in branches of WalMart. The tax preparation firm’s TV ads show people dancing around wildly while a voice-over explains that these people got big tax refunds and Jackson Hewitt will get you the same thing FREE. I can’t see Hong Kong accountants setting up stalls in ParknShop and dancing around wildly, but you never know.

Recently, an advertising war broke out between two next generation U.S. tax firms, H&R Block and Intuit. The first company uses part-time staff to process tax returns in the busy period. The second company took out sneering TV ads pointing out that the first company’s tax staff were actually plumbers and shop assistants. The first company accused the second company of being classist. The row moved from TV, to social media, to the printed media. Both companies got tons of free publicity, so everyone ended up happy.

The late Gordon Huthart, who opened Disco Disco, the first club in what was to become the Lan Kwai Fong bar district, once said: “It doesn’t matter whether your name is remembered for something good or something bad, as long as your name is remembered.”

It’s true. Praise and notoriety lead to the same destination, fame, but notoriety is way easier to achieve. Want to see where I put my “Expand” tattoo?

Nury Vittachi is a bestselling author, columnist, lecturer and TV host. He wrote the Institute’s first two storybooks, May Moon and the Secrets of the CPAs and May Moon Rescues the World Economy. A third, May Moon’s Book of Choices, was published in 2012.