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The journal of The Hong Kong
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The Hong Kong Institute of Chartered Secretaries (HKICS) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies in Hong Kong and throughout China, as well as the development of the profession of the Chartered Secretary. The HKICS was first established in 1949 as an association of Hong Kong members of the Institute of Chartered Secretaries and Administrators (ICSA) of London. It became a branch of ICSA in 1990 before gaining local status in 1994, and today has over 5,800 members and 3,200 students.

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May 2015

CSj, the journal of The Hong Kong Institute of Chartered Secretaries, is published 12 times a year by Ninehills Media and is sent to members and students of The Hong Kong Institute of Chartered Secretaries and to certain senior executives in the public and private sectors.

Views expressed are not necessarily the views of The Hong Kong Institute of Chartered Secretaries or Ninehills Media. Any views or comments are for reference only and do not constitute investment or legal advice. No part of this magazine may be reproduced without the permission of the publisher or The Hong Kong Institute of Chartered Secretaries.

Circulation: 9,100

Annual subscription: HK\$2600 (US\$340)

To subscribe call: (852) 3796 3060 or

email: enquiries@ninehillsmedia.com

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ISSN 1023-4128

Contents

Cover Story

Governance and family companies 08

Stephen Young, Global Executive Director, Caux Round Table, argues that family companies need good governance to turn their ambitions into reality.

In Focus

The rise of the renminbi – China's globalising journey 14

CSJ traces the rise of the renminbi as an international currency and asks where this journey will lead us next.

American leadership in a multipolar world 22

Paola Subacchi, Research Director of International Economics at Chatham House and Professor of Economics at the University of Bologna, looks at the pressure from China and other developing countries to expand the use of multiple currencies in the international monetary system as the first step toward institutionalising a multipolar world order.

美国在多极世界中的领导地位 24

皇家国际事务研究所(Chatham House)国际经济学研究主管、博洛尼亚大学经济学教授保拉·苏巴奇指出，国际货币体系过度依赖美元已属不合时宜。她认为中国及其他发展中国家就于国际货币体系中扩大使用多种货币而施加的种种压力，是使多极世界秩序趋于制度化的第一步。

Technical Update

How to avoid issuing clarification announcements 26

William Wong, Associate, Deacons, outlines some common deficiencies in corporate disclosures which frequently result in the need to issue clarification announcements.

Mainland Report

China's draft unified Foreign Investment Law 30

Lester Ross, Kenneth Zhou and Tingting Liu at law firm WilmerHale, examine what China's foreign investment legal system will look like when its new Foreign Investment Law, which was issued for public comment in January this year, takes effect.

Case Note

Winding up a listed company by the SFC 34

In *Re China Metal Recycling (Holdings) Ltd*, the Securities and Futures Commission has obtained its first court order to wind up a Hong Kong-listed company under Section 212 of the Securities and Futures Ordinance.

HKICS News

President's Message 04

Institute News 38

Student News 46

Ask the Expert 07





Family companies – governance models?

It used to be assumed that family businesses are second-class citizens when it comes to corporate governance, but there are a number of problems with this notion. Firstly, the term 'family business' does not refer solely to emergent businesses which are at square one when it comes to corporate governance, it also includes businesses that have hundreds of years of history behind them and which have evolved governance structures that are best of their class.

Secondly, new research has begun to cast doubt on the supposed 'dangers' of investing in family-controlled companies. In Canada for example, the Clarkson Centre for Business Ethics and Board Effectiveness (CCBE), has found that the 23 companies in its Clarkson Centre Family Index (CCFI) – an index comprising companies where at least 30% of votes are controlled by a single entity under family control – have outperformed the headline index for the Canadian equity market (the S&P/TSX Composite) by 41% over a 20-year period. These companies consistently scored lower on the usual measures of corporate governance best practice and yet they represented better value for shareholders in the long term. Why?

Part of the answer can be found in this month's cover story (see pages 8–13). Its

author, Stephen Young, Global Executive Director, Caux Round Table, points out that family companies often embrace values highly conducive to sustainable business – including having a stakeholder focus and a long-term planning horizon. This point is backed up by the CCBE research cited above. Head of the CCBE, David Beatty, identifies family-owned firms' goal of preserving wealth for future generations as the key driver behind these companies' success.

It is important to bear in mind that the companies in the CCFI are family companies that have survived to at least the second generation – this is part of the criteria for their inclusion in the index. These companies, therefore, are likely to have already learned the benefits of professional governance structures when it comes to surviving challenges such as succession planning, going public and managing risks.

As Stephen Young emphasises in the cover story this month, while family companies often have values which are conducive to sustainable business, to actually make it past the second and third generations they also need governance. They need independent directors, professional managers and company secretaries to help bring objectivity to the decision-making process, to ensure accountability for decision makers and to ensure transparency to stakeholders.

If family businesses can marry the value system they bring to the commercial

enterprise with the best practices that governance professionals advocate, they will have a good chance of creating companies that will become models for sustainable business practices for many years to come. The challenge remains for us as Chartered Secretarial and governance professionals to instil the value of good governance, and the returns it brings, within the complex dimensions of businesses with family influences.

Finally, I would like to remind readers that our Annual Corporate and Regulatory Update (ACRU) seminar will take place on 3 June 2015 at the Hong Kong Convention and Exhibition Centre. ACRU is the largest-scale event in our CPD year and provides a very valuable opportunity for our members to hear directly from market regulators about the most pressing issues in regulatory compliance. This year we have speakers from Hong Kong Exchanges and Clearing, the Securities and Futures Commission, the Companies Registry and the Hong Kong Monetary Authority. If you haven't already booked a seat, I urge you to do so since this is the most popular event of our CPD calendar and books up fast.

A handwritten signature in black ink, appearing to read 'Maurice Ngai'.

Maurice Ngai FCIS FCS(PE)

家族公司 — 治理典范？

一直以来，不少人会认定家族业务在公司治理方面稍逊一筹，不过这个想法有值得商榷之处。首先，「家族业务」名称不仅指公司治理刚起步的新公司，也包括他们当中已发展出最佳管治架构的百年商号。

其次，最新的研究开始对投资于家族控制的公司存在的既定「危险」抱有质疑。例如加拿大的商业道德与董事会效能克拉克森中心 (Clarkson Centre for Business Ethics and Board Effectiveness, CCBE) 发现，在20年间，克拉克森家族指数 (Clarkson Centre Family Index, CCFI) (涵盖23家由家族控制的单一实体占有最少三成投票权的公司) 的表现，比加拿大证券市场的整体指数 (S&P/TSX综合指数) 的表现优胜越41%。按一般的公司管治最佳实务衡量，这些公司的得分往往较低，长远而言却为股东带来较佳价值。为什么？

部分答案可在本期的封面故事 (第8至13页) 中找到。该文章作者高斯圆桌会议 (Caux Round Table) 环球常务董事 Stephen Young 指出，家族公司所抱持的价值观，往往极有助于业务的可持续发展，这些价值包括以利益相关者为中心，又以长远发展规划为方针。

这个观点获得前述CCBE的研究结果所支持。CCBE主管David Beatty认为家族公司为后代积存财富的目标，是这些公司致胜之道。

值得注意的是，克拉克森家族指数所涵盖的公司均已是第二代或后代所营运，这亦是它们被纳入指数的标准之一。因此，这些公司很可能已认知到专业管治架构有助迎接种种挑战，例如安排继任人、筹备上市、风险管理等。

正如Stephen Young在本期封面故事中所强调，家族公司的价值观固然往往有助于业务可持续发展。公司若要持续至创办人的第二和第三代以后的后裔来打理，是需要良好的管治。公司需要有独立董事和专业的管理人员和公司秘书，帮助维持决策过程客观，确保决策者问责，并确保向利益相关者保持透明度。

家族公司若能以其为企业带来的价值体系，结合公司管治专业人士提倡的最佳实务，则有很大机会长期成为可持续商业模式的典范。如何在业务关系复杂的家族公司内灌输良好管治的价值，让这些公司认识到推行良好管治所带来的回报，是我们特许秘书和治理专业人员所面对的挑战。

最后，我想提醒大家，一年一度的公司规管最新发展研讨会 (ACRU)，将于2015年6月3日假香港会议展览中心举行。ACRU是公会年度中最大规模的持续专业发展活动，为会员提供宝贵机会，直接听取监管机构讲述合规方面最迫切的议题。今年的讲者来自香港交易及结算所有限公司、证券及期货事务监察委员会、公司注册处和香港金融管理局。ACRU是公会最受欢迎的持续专业发展活动，名额有限，我邀请您尽快报名，预留席位。



魏伟峰博士

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Ask the Expert

If you would like to ask our experts a question, please contact CSJ Editor Kieran Colvert: kieran@ninehillsmmedia.com.

The identity and contact details of questioners will be kept confidential.

Q: *Recent AGM seasons have seen an increase in 'no' votes against some types of resolutions. What can I do to help prepare my company for our AGM?*

A: Investors across Asia are beginning to alter their approach to the AGM season and voting. Whereas in the past, the AGM was a fairly benign event with a guaranteed outcome, it is now prudent to dedicate time throughout the year to shareholder identification and engagement, in order to be as prepared as possible for the AGM.

Knowing the identity of your investors is the first step in any successful investor relations or shareholder engagement programme. However, under the existing nominee system, it is virtually impossible for most issuers to know who their true holders are.

A shareholder identification service helps to overcome this unique challenge by investigating share ownership in a highly efficient and accurate manner. The end result is a comprehensive report detailing the identities of the beneficial owners, their respective investment profiles and other relevant information, delivered in an organised board-level report format.

With this in hand, you are well equipped to embark on the next phase – shareholder engagement. The Corporate Secretaries International Association (CSIA) has just released a position statement on shareholder engagement, alongside an engagement practices paper, which makes a number of recommendations for issuers, some parts of which are outlined below.

1. Corporate secretaries should keep abreast of the corporate governance and proxy voting policies of their significant investors, understand if and how their company's corporate governance practices may be inconsistent with those policies, and explain any substantive differences between the two to their significant investors.
2. Corporate secretaries should keep their boards and senior management informed about corporate governance trends and any concerns investors may have about the company's corporate governance practices.

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3. Corporate secretaries and designated members of senior management, as appropriate, should engage in regular communication with significant investors and have established channels through which investors can communicate with company management and the board.
4. Corporate secretaries should also communicate regularly with retail investors, and should, if practical, utilise available technology to enable shareholders to communicate with senior management and the board, and to participate virtually in the annual meeting of shareholders.
5. Communications (of some form) with investors should be regular and routine. Companies should not wait until a crisis or a serious issue develops before engaging in a dialogue with investors.
6. Companies should designate and disclose the identity of persons charged with the responsibility of communicating with investors.
7. Companies should establish a shareholder engagement policy as appropriate and publish it on their website.

Your relationship manager at your registrar will be able to provide you with advice for fulfilling some of these engagement and corporate governance best practices. For the full text of the papers from the CSIA, please visit: <http://cpu.vg/CsiaShE>.

The Securities and Futures Commission (SFC) is inviting market participants to submit written comments on its *Consultation Paper on the Principles of Responsible Ownership*; you may submit a response no later than 2 June 2015. The consultation paper is available on the SFC website: www.sfc.hk.

Ying Ci, Managing Director of Shareholder Identification & Proxy Solicitation Solutions
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“companies should not wait until a crisis or a serious issue develops before engaging in a dialogue with investors”

Governance and family companies

The concept of sustainability often comes naturally to family companies since they need to serve the family's needs through the generations, but Stephen Young, Global Executive Director, Caux Round Table, argues that they also need good governance to turn those ambitions into reality.

There is a common view that family companies don't need much governance. Families provide their own governance for themselves and their businesses, especially in cultures with strong patriarchal patterns of family organisation.

But this view is superficial. Business success demands from those with positions in the company fidelity to role responsibilities and emotional self-control to serve as part of a team performing as expected for the common good of the group. The culture of business rationality is very different from the more affective culture of patrimonialism and favouritism which constitutes the authority pattern

in many families. If a family puts a priority on the business success of its company, it needs governance over the company appropriate to the roles and responsibilities of market-focused and profit-focused decision making.

What then is governance? How should families come to appreciate governance as a beneficial addition to their quest for happiness and wealth creation? Governance achieves two important tasks. Firstly, it moves subjective values and other ethereal concepts from abstraction into material reality. Secondly, it provides control of outcomes through the selection of priorities and the imposition of accountability.

Since a business enterprise is a cooperative enterprise, organising people to function as needed is essential. Business does not happen through spontaneity or serendipity but through planning and intentional decision making in response to complex currents of people and circumstances. Business happens for better or worse through governance. Every business has goals and objectives. Some values must be chosen for implementation within the business if it is to be a self-sustaining organisation and have an impact in the market.

Governance is needed to convert ambition into results. A company run without governance runs the serious risk of being erratic, faddish, ad-hoc, wasteful and irrelevant.

Governance also selects among alternative courses of action in order to limit choices and impose discipline. Governance delivers control – control over self and control over others. This function aligns owners of a business with the rationality necessary to achieve business success. Governance enables family owners to control themselves to do what is in the best interest of the business and to control the people who serve the company and make its decisions.

Highlights

- family companies often embrace values highly conducive to sustainable business – including having a stakeholder focus and a long-term planning horizon
- to be sustainable over the long term, family companies need professional governance structures which ensure full accountability for decision makers
- if the right values have been chosen by the founders and the right structures for rational priority setting have been put in place, family companies can continue to prosper with professional managers over time becoming incorporated into the family ethos



Choosing between Dr Jekyll and Mr Hyde

But what values should a family choose to implement through governance? Should the family seek to run its company as the good Dr Jekyll or as horrific Mr Hyde? The challenge of governance for a family lies in choosing its goals and objectives. A family company could be socially responsible or it could be very irresponsible in extracting advantages for itself from society.

A decision must be made as to what goals and objectives will become the vision and mission of the company. The governance process will take whatever it is given by the family and bring it to life in the market.

Generally speaking, bad values in the context of a family company look towards money and power for the family. Selfishness in seeking to establish the social, cultural or political power of the family as a collective enterprise often demands that the company be run for the extraction of cash for transfer to family accounts. Then financial wealth can be used for the purchase of status goods through conspicuous consumption in the fashion of absentee landlords, feudal aristocrats, or demanding warlords shaking down their dependents and retainers. This is the family acting as rentiers, not as risk-taking capitalists creating new wealth for themselves and for society.

From the perspective of society, business should be part of Adam Smith's metaphoric 'invisible hand' contributing to the general economic growth of the community. Rent extraction, living off a company only as a rentier, compromises the robustness of economic growth.

The Caux Round Table, therefore, developed a set of ethical principles to direct owners of private wealth away from rent seeking towards productive contributions to social prosperity. These principles start from the premise that wealth comes from earning a return on capital – human, financial, physical, reputational and social. Current wealth generates future wealth. A necessary use of wealth, therefore, is to ensure the creation of more wealth.

Wealth is a form of capital, constituting in particular the flexible ability to use and deploy finance capital. Both individual initiative and social institutions interact to produce all forms of capital, giving to capital a mixed character subject to the authorship claims of both individuals and society. Capital therefore arises out of a process of living and working together for a common good. Ownership of shares in companies and corporations is, of course, a primary form of wealth in the global economy.

Further, the highest and best use of any form of capital is to generate additional capital. Capital should not be used to hinder society's ability to create more capital for the benefit of others. Consumption is not the most responsible use of capital.

The proper use of wealth is necessary for the achievement of more gentle and happy social circumstances, for improvement of the human condition. Possession of wealth generates envy in others, leading to cultural and social tensions. Unequal distribution of wealth further gives rise to resentment, alienation and political conflict.

The fundamental principle for owners of wealth to acknowledge is that the

ownership of wealth entails stewardship. The ends of holding wealth encompass more than meeting self-centred desires for dominion and indulgence. There is a fiduciary aspect to the ownership of capital. Wealth is to be consciously devoted to meeting the needs of society, of others, and the challenges of the future. Wealth should be of benefit to society.

This fundamental principle is made more specific by these subsidiary principles:

1. ***Wealth should be used to enhance other forms of capital: financial, physical, human, reputational and social.*** First, wealth should be used to sustain and improve the institutions that permit the creation of wealth. Accumulated over time, wealth can influence the future. Wise use of wealth avoids immediate consumption and invests in the creation of better outcomes for future generations. When wealth is invested in the creation of additional finance capital, it should invest in those businesses and productive enterprises that adhere to the Caux Round Table Principles for Business. In particular, the current wealth of advanced industrial countries (some US\$79 trillion) should be increasingly directed towards the creation of conditions for sustained economic growth in poor, developing and emerging market nations. Wealth should be used to enhance all forms of capital formation in nations that adhere to the Caux Round Table Principles for Governments.
2. ***The desires of owners for self-satisfaction should be balanced against society's need for robust***



“
family companies have an
inbred bias for sustainability of
enterprise in order to serve the
family’s needs over time and
through generations
”

accumulation of new capital in all forms. Philanthropy is incumbent upon those who possess wealth. The social function of wealth is to finance a greater good. Those who are to inherit wealth should be expected to assume the fiduciary responsibilities of stewardship that accompany the possession of wealth.

3. ***Wealth must support the creation of social capital.*** Social capital – the reality of the social compact incubating successful wealth creation and permitting the actualisation of human dignity – is created over time by governments and civil society. From the rule of law to physical infrastructures, from the quality of a society’s moral integrity and transparency of its decision making to the depth and vitality of its culture, social capital demands investment of time, money, imagination and leadership.

Wealth should pay its fair share in taxes to support public programmes enhancing social capital and should invest in the private creation of social capital through philanthropy.

4. ***Wealth should be invested in institutions enhancing human capital.*** Education and culture can be funded from public budgets on a consumption basis, but wealth should shoulder the principal responsibility in a society of providing permanent endowments for institutions of education and culture.
5. ***Private wealth should supplement public expenditures for the social safety net.*** Private charity and philanthropy should respond to the health and human services needs of the less fortunate.

6. ***No one is morally entitled to the use and enjoyment of wealth procured by fraud, corruption, theft, or other abuse of power.*** Those who control such wealth should make restitution of such wealth to public bodies or civil society. Use of private property rights to shelter such wealth is ethically suspect.

Family values

A simple and straightforward way for family companies to manage governance is to carry forward into the company the best family values. A family is a community which has a place for all its members and has expectations that its members will flourish and have happy lives.

Of course, many families are dysfunctional and don’t act on the basis of love and kindness towards relatives. Families can be upsetting interpersonal fire pits of emotional dramas, power struggles,

“
 by taking care of its
 environment – its customers,
 its employees, its creditors, its
 suppliers, its community – the
 company improves the odds of
 its own financial success
 ”



resentments, and other psycho-social neuroses. But families should seek the best, which is to experience mutual love and support in comfort and advancement.

Families can extend to their companies this sense of mutuality and reciprocal obligation. The family value most appropriate for setting company priorities would be to share beneficial outcomes with employees, customers and the community while living in harmony with the environment.

The family and its extended family – so to speak – of stakeholders in the family company come to share value produced by the business. The family business can be something of a social enterprise serving a variety of beneficiaries. As the company prospers, so will the family but the company cannot prosper well unless its employees, customers and suppliers share in what the company makes possible – its goods or services or its financial benefits.

In Japan a similar concept derived, I think, from Shinto naturalism with Buddhist overtones is called *Kyosei*. From this point

of view, a company, like a family, is part of a wider environment which sustains it. By taking care of its environment – its customers, its employees, its creditors, its suppliers, its community – the company improves the odds of its own financial success. It creates through *Kyosei* favourable support structures which will feed its needs with quality input and resources.

In the US, the tradition of Calvinism in the old families of New England provided a similar incentive to run family companies with regard for customers, employees and the community. The Dayton family in Minnesota became famous for not only its sound and successful business undertakings but as leaders in charity and community problem solving.

The honour and reputation of a family – its legacy over the generations – is built on how it lives up to values or not. Putting in place governance of a family company such that it acts responsibly promotes honour and a worthy reputation.

Honour and reputation may not be desired goods for investors in public

companies, who most often see their relationship with the company as strictly financial, but they are frequently the psycho-social glue which holds families together. They set standards of high performance which family members come to accept as a birthright to live up to.

But on the purely financial side, a family company improves its long-term value to be gifted down over the generations by paying attention to its stakeholders. Companies that exploit their stakeholders can profit in the short run but often lose out in the long run. Financially, family companies are more likely to worry about long-term returns, the building of capital wealth that can sustain descendants. Family members should be reluctant to 'take the money and run', for in taking the money out and away from the company, they are undermining the family's future wellbeing.

Governance in family companies, therefore, needs to constrain that narrowly focused impulse to profit at the expense of the family group. This is part of the second function of governance

– providing discipline and rationality to promote the wellbeing of the business.

Thus, family companies have an inbred bias for sustainability of enterprise in order to serve the family's needs over time and through generations. To be sustainable, good governance is necessary. Poor governance adds risk and brings on difficulties and losses. Good governance foresees challenges and is responsive to demands for excellence. With good governance, family companies will prosper more and longer.

Once the first aspect of governance is at work, the second comes into

play – exercising control through the selection of specific goals and objectives and holding those in positions of responsibility accountable for their actions.

But younger generations as they come to maturity may or may not be as committed as their parents and grandparents to personal governance of the family business. It is at this juncture between generations where governance can be most important for family companies. If the right values have been chosen by the founders and the right structures for rational priority setting have been put in place, the

family company can continue to prosper, with professional managers over time becoming incorporated into a family ethos of purpose and achievement.

In conclusion, governance is not in tension with family control of business but is a vital part of success in running such an enterprise.

Stephen Young

*Global Executive Director
Caux Round Table*

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The rise of the renminbi – China’s globalising journey

Over the last decade, the renminbi has gone from being unknown outside China to being the fifth most traded currency and the second most used currency for trade finance in the world. Bruce Andrews asks where this journey will lead us next – is the renminbi destined to become a global reserve currency?

The renminbi's first steps on its path towards internationalisation were marked by difficult economic circumstances and a tragedy, followed by a sympathetic gesture. In 2003, Hong Kong's economy had suffered a crippling double-hit from the global 'dot-com' stock market crash and then the outbreak of Severe Acute Respiratory Syndrome (SARS). To give the city's economy a much-needed boost, Chinese authorities in February 2004 announced they would permit personal banking to be conducted in renminbi in Hong Kong.

China has certainly also benefited from opening its currency up to the world. Moreover, it has been an important step in the country's economic development over the past 10 years. As Rongrong Huo, HSBC's Head of China and Renminbi Business Development, Capital Financing, Global Banking and Markets, explained in a short film produced by her bank on renminbi (www.youtube.com/watch?v=Tha-S7TR3gs), China was a closed country where everything was regulated until the early 2000s, particularly money. Before the controls on the currency began to be relaxed, goods and services were heavily rationed.

'The opening up of the currency has changed people's lives here, and the most exciting thing is that it is only the beginning,' says Ms Huo.

So what is meant by the phrase, 'the internationalisation of renminbi'?

Essentially, it means allowing the Chinese currency to be used outside the Mainland, allowing renminbi to be used for payments, settlements, investments, financing and potential reserves management.

Some of the preconditions for the currency's internationalisation are already satisfied. However, free convertibility under capital account market-orientated liberalisation and opening up the onshore capital markets are requisites that are yet to be achieved before the renminbi can become completely internationalised. Though the most recent announcements from Chinese leaders indicate that the overall reform will accelerate.

A remarkable journey

Before 2004, we rarely saw the renminbi being used outside China. With the introduction of personal renminbi business in Hong Kong, yuan cash notes could be funnelled from Hong Kong back to the Mainland through the banking system. The onshore renminbi market, with currency

trades at exchange rates controlled by the government, remained the only marketplace for the Chinese currency. However, a turning point came in 2010 when Chinese and Hong Kong authorities launched an offshore renminbi market (CNH). The major difference was the offshore CNH yuan exchange rate was floating and predominantly determined by private demand for the currency.

Since then, the number of offshore renminbi markets around the world has grown steadily with London, Singapore, Taiwan, Germany, Canada and many others allowing renminbi clearance banks at their locations, making it easier for overseas businesses to participate. Also from 2010, foreign companies have been able to issue renminbi-denominated 'dim sum' bonds outside China to fulfil their financing needs.

At the close of 2014, the renminbi ranked fifth as the most traded currency in the world, according to the Society

Highlights

- the renminbi's journey to full convertibility is just one aspect of China's increasing integration with the rest of the world
- companies outside China would do well to monitor and understand both the rise of the renminbi and the rise of China since this will provide new opportunities in the years ahead
- renminbi internationalisation will continue to be implemented in a planned and controlled way



“
renminbi full
convertibility under the
capital account may come
earlier than many expect,
and is likely to be in the
next two or three years
”

Rongrong Huo, HSBC's Head of China and
Renminbi Business Development, Capital
Financing, Global Banking and Markets

for Worldwide Interbank Financial Telecommunication (SWIFT), at 2.2% of SWIFT payment. The currency only trails the US dollar (44.6%), the euro (28.3%), the British pound (7.9%) and the Japanese yen (2.7%).

This is a notable result for the currency, as the renminbi was in eighth position in 2013 and seventh in early 2014 for most traded currencies in the world. In February 2015, the renminbi was also the second-most used currency in trade financing and ninth in the world for foreign exchange trading. In August 2014, more than 10,000 financial institutions were doing business in renminbi, up from 900 in June 2011; moreover, about 18% of China's trade is settled in its own currency, up from only 3% in 2010. There are now eight official offshore renminbi trading centres around the world: Hong Kong, Macau, Taiwan, Singapore, London, Germany, South Korea and Toronto (which signed in November 2014).

In an interview with CSj, Ms Huo says the internationalisation process of the renminbi and its progress towards full convertibility has been truly impressive but it is a journey that has only just started. She emphasises that the currency reforms to date are just one aspect of China's integration with the rest of the world. While the development of China's onshore capital market has been crucial in its economic transformation, there is more work to be done in opening strategic capital flows with the rest of the world, particularly outward direct investment (ODI).

While trade settlement in the renminbi has certainly expanded substantially in recent years, Ms Huo expects in 2015 that the Chinese currency will continue to become more market-orientated and used more widely for global payments, financial investments, financing and reserve management. 'Beijing's commitment to speeding up capital

account liberalisation implies that full renminbi convertibility may come earlier than many expect, and is likely to be in the next two or three years,' she says.

Meanwhile, running in parallel to the currency's shift to full convertibility, she anticipates that more financial reforms will be rolled out for both onshore equities and fixed income development (primary and secondary market) within the Mainland.

This year, China's economic growth has been forecast by Beijing to decelerate to 7%, down from 7.4% in 2014. Ms Huo remains positive and believes we will continue to see the progress in the renminbi's internationalisation for several reasons.

1. China's economic growth 'is transforming from quantity to quality to achieve sustainable growth', she says. She adds that

7% growth is still very high in comparison with other countries, especially when looking at the size of China's gross domestic product (GDP) in relation to global GDP.

2. China's central bank – the People's Bank of China (PBoC) – has stated it will not intentionally create a stronger or weaker currency, as it would go against the central government's commitment to economic rebalancing and structural reform.
3. According to the latest government work report discussed in China's National People's Congress held in

Beijing in March 2015, the central government is committed to continue to support market-oriented development.

4. The current cross-border capital flow via schemes such as the RMB Qualified Foreign Institutional Investors scheme (RQFII), is very much around securities investment within the secondary market, such as investing in Chinese equities and bonds onshore. The market desires to see more in the primary market – a key focus area for the renminbi's internationalisation in 2015 and onward will be centred on strategic capital flow, such as ODI – which is

also in line with the 'One belt, one road' strategy of China's national plan. This development strategy was initiated by China's central government in 2013. It refers to the new Silk Road economic belt, which will link China with Europe through Central and Western Asia, and the '21st century maritime Silk Road', which will connect China with Southeast Asian countries, Africa and Europe. 'ODI will hopefully generate round-trip renminbi transactions that (according to HSBC research) will not have to depend on renminbi appreciation to be attractive,' Ms Huo says.

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Maintaining control

The journey of the renminbi towards full convertibility with the world's other currencies has been carefully managed by the Chinese central government. This conservative approach has been substantially due to concerns over the risks of a situation occurring where 'hot money' flows too quickly in and out of the domestic economy, which potentially could destabilise China's financial and currency exchange markets. Typically, 'hot money' (the flow of funds between one country and another in order to earn profits in the short term) is used speculatively to take advantage of interest rate differences or anticipated shifts in exchange rates, and is moved very quickly in and out of markets.

'The Chinese government has been very proactive in managing the risks of hot money by using a quota- and licence-based system – such as the RQFII,' Ms Huo says. 'They have gradually relaxed the rules and increased quotas over

time, which has helped ease the approval process [for financial institutions and investors] while managing the issues and gathering feedback along the way.'

China's overall strategy has been to encourage investors with long-term aims to be the first to enter its capital markets, such as overseas central banks, insurance companies and pension funds. As the renminbi's foreign exchange mechanism has become more market orientated and the onshore capital markets have gradually opened up to the world, there has been convergence between offshore and onshore yields, such as the yields for offshore sovereign and non-bank credit, which surpassed onshore levels for the first time in March 2015, Ms Huo says.

'Renminbi internationalisation is, and will always be, implemented cautiously with the aim to roll out nationally if successful,' she says. 'For example, the Shanghai Free Trade Zone was set up [in 2013] as a pilot [programme] for a basket of capital-

account convertibility activities, and it will be rolled out nationwide if successful!'

The Shanghai Free Trade Zone has been utilised as a laboratory for Chinese authorities to test many reforms as the currency heads towards full convertibility, said Caroline Owen, Regional Head of RMB Solutions at Standard Chartered Bank, in a televised interview. 'It is important that they use this controlled environment to test the changes so they can review the results of these changes and make changes before rolling them out to the rest of the country,' she said.

Ms Huo says she expects the opening up of China's onshore capital market will continue to be done systematically and in a step-by-step manner, 'from introducing quota systems to the ongoing monitoring and adjustments, and then by adding more channels such as the Shanghai-Hong Kong Stock Connect,' she says. She adds that the stock connect link between Shanghai and Hong Kong (which will soon extend to

“
[The Shanghai-Hong Kong Stock Connect] will help increase overseas usage of the yuan and cross-border transactions in yuan, as well as boost the offshore renminbi market. This will, in turn, accelerate the yuan's internationalisation
 ”

Jiang Licheng, Managing Director, Retail and Brokerage, BOC International



Major milestones for renminbi business in Hong Kong

2004

Hong Kong banks begin to be allowed to accept renminbi deposits and other renminbi banking services, such as currency exchange and remittances in small amounts.

2007

Qualified Mainland financial institutions are permitted to issue renminbi ('dim sum') bonds in Hong Kong. Renminbi deposits in Hong Kong increase substantially as a result, and the renminbi is no longer confined to the retail level as it now also includes capital investing.

2009

A trial scheme is launched for 365 enterprises in five Mainland cities – Shanghai, Shenzhen, Zhuhai, Dongguan and Guangzhou – to start cross-border renminbi trade settlements with partners in Hong Kong, Macau, Taiwan and ASEAN countries.

2010

The restriction on non-financial companies issuing dim sum bonds in Hong Kong is relaxed. In September 2010, McDonald's becomes the first foreign non-financial company to issue a 'dim sum' bond.

The People's Bank of China (PBoC) and the Hong Kong Monetary Authority (HKMA) sign a new agreement permitting free flow of renminbi between individual and enterprise accounts, and allow for a wider range of renminbi transactions to be conducted.

The PBoC and Bank of China (Hong Kong) sign a revised settlement agreement for the first offshore interbank market for renminbi to develop in Hong Kong.

2011

The renminbi trade settlement pilot scheme is extended to cover all provinces in Mainland China.

The Renminbi Qualified Foreign Institutional Investor (RQFII) scheme is introduced, enabling overseas investors to use offshore renminbi deposits in Hong Kong to invest in Mainland securities markets.

2013

The RQFII scheme is expanded to include all financial institutions that are registered and have major operations in Hong Kong.

The renminbi overtakes the euro as the world's second most-used currency for trade finance after the US dollar,

according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

The Treasury Markets Association launches the fixing of the benchmark renminbi Hong Kong Interbank Offered Rate ('CNH HIBOR').

2014

The Shanghai-Hong Kong Stock Connect pilot programme is launched, allowing qualified Mainland Chinese and Hong Kong investors to trade eligible shares listed on each other's stock markets through local securities firms.

2015

In January, Switzerland becomes the eighth jurisdiction to be included in the RQFII scheme. In addition to Hong Kong and Switzerland, the other jurisdictions that have been allocated RQFII quotas are the UK, Singapore, France, South Korea, Germany and Canada. The combined approved RQFII quotas total approximately RMB820 billion.

Chinese Premier Li Keqiang announces a second Stock Connect linking the Shenzhen and Hong Kong exchanges.

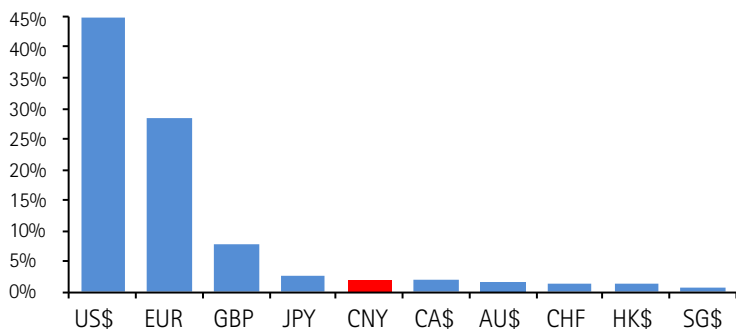
Shenzhen) is a transformational process which will lead to further developments such as opening links for commodities, bonds and cross-border listing ETFs trading.

The Shanghai-Hong Kong Stock Connect pilot programme, launched in November

2014, has excited many observers with the possibilities it offers for offshore investors with renminbi deposits. While the scheme has linked the Shanghai and Hong Kong stock exchanges, allowing overseas investors to purchase approved shares in companies listed on Shanghai's

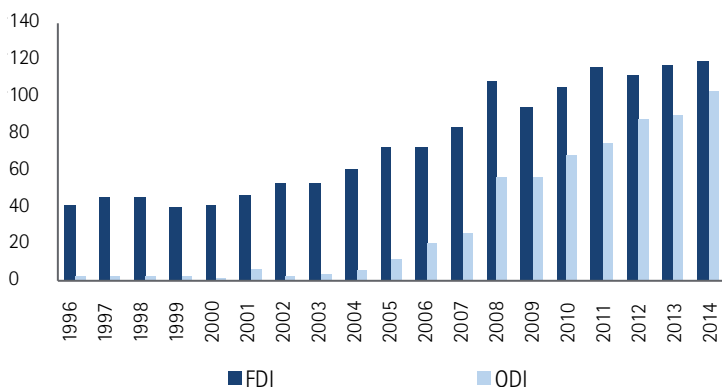
stock exchange, it promises to provide the blueprint for more channels to the Mainland's capital markets to become available. In January this year, China's Premier Li Keqiang announced a second Stock Connect to bridge the Shenzhen and Hong Kong stock exchanges, and

World Payments Currency



Source: SWIFT RMB Tracker December 2014

China FDI and ODI (US\$bn)



Source: CEIC, HSBC

Note: Excluding investment in banks, insurance and security sectors

many expect more channels linking the interbank credit, bonds, futures and commodities markets to open soon after.

'[The Shanghai-Hong Kong Stock Connect] will help increase overseas usage of the yuan and cross-border transactions in yuan, as well as boost the offshore renminbi market. This will, in turn, accelerate the yuan's internationalisation,' said Jiang Licheng, Managing Director, Retail and Brokerage, BOC International, in a recent televised interview.

Ms Huo points out that 'building on the Qualified Institutional Investor (QFII and RQFII) programmes, the Shanghai-Hong Kong Stock Connect provides a platform providing access to investors in order for [more] capital to flow into and out of China with all the necessary market infrastructure. With the backdrop of China's journey of financial and capital reform, we will see wider channels for capital to flow, and [refinements in] the renminbi settlement mechanism will promote renminbi usage as an

investment currency, which will in turn facilitate better renminbi liquidity, create market demand in both the primary and secondary markets, and will help the long-term goal to achieve onshore/offshore convergence.'

Looking ahead, Ms Huo expects the renminbi's development will continue at pace as it moves up the rankings of world payments currencies (see 'World Payments currency' graphic opposite).

Companies outside China would do well, she advises, to understand how China will be pursuing links with the rest of the world along certain themes, such as 'global sustainable financing', 'building infrastructure', and so on. They will also need to realise the new opportunities that are likely to arise out of China, such as substantial increases in ODI. China's rapidly growing ODI is expected to soon exceed Foreign Direct Investment (FDI) into the country and for China to become the second-largest net global investor, according to HSBC research, Huo says (see 'China FDI and ODI' opposite).

Finally, Ms Huo expects to see more offshore renminbi centres and bilateral swap lines developed as China continues to facilitate the offshore liquidity of its currency and build strategic engagement with those centres.

For instance, on 23 March 2015, ICBC Canada was officially launched as a renminbi clearing bank, and Toronto as the first renminbi trading hub in the Western hemisphere. It joins 12 other locations around the world with appointed renminbi clearing banks – these are: Hong Kong, the UK, Germany, France, Singapore, Malaysia, Taiwan, South Korea, Thailand, Australia, Luxembourg and Qatar. In January this

year, the Swiss central bank announced it had agreed with the PBoC to establish clearing arrangements in Switzerland for renminbi trading and to extend a pilot scheme for Swiss investors.

Global reserve currency?

Looking further into the future, while China is aiming for the renminbi to be a major trade and investment currency, there is also an ambition for the renminbi to become the second global reserve currency, next to the US dollar, within 15 years. While there is certainly an appetite for investors and central banks around the world to diversify their currency holdings, there is much work to be done in order for the renminbi to attain this status.

In a televised interview for the Asian Development Bank, Barry Eichengreen, Professor of Economics and Political Science at the University of California, Berkeley, outlined that there are three prerequisites for the renminbi to become a global reserve currency: scale, stability and liquidity.

'Scale means if you are going to be the issuer of a true international currency, you have to be a big country that engages in a lot of international transactions. China qualifies now, and it will qualify even more in the future,' he said. 'Stability means economic, financial and political stability. A currency is attractive if there are stable economic policies and stable financial markets standing behind

it. China increasingly satisfies that prerequisite. To my mind, [liquidity] is the hard one. Building deep and liquid financial markets takes time. It requires building infrastructure [and] it is a process that only a few countries have completed.'

It could also be argued that China will not only need to prove the strength of its financial markets and the depth of the currency's liquidity, it will have to win the world's trust to become a global reserve currency. Doubtless, these are all daunting challenges, but China believes they are surmountable.

Bruce Andrews
Journalist

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American leadership in a multipolar world

Over-reliance on the US dollar in the international monetary system is an anachronism, argues Paola Subacchi, Research Director of International Economics at Chatham House and Professor of Economics at the University of Bologna. She looks at the pressure from China and other developing countries to expand the use of multiple currencies in the international monetary system as the first step toward institutionalising a multipolar world order.

Giving up the spotlight is never easy. The US, like many ageing celebrities, is struggling to share the stage with new faces, especially China. The upcoming meetings of the International Monetary Fund and the World Bank – two institutions dominated by the US and its Western allies – provide an ideal opportunity to change that.

The US must come to terms with the reality that the world has changed. The longer the US remains in a state of denial, the more damage it will do to its interests and its global influence, which remains substantial, if more constrained than before. The world no longer adheres to the static Cold War order, with two blocs locked in open but guarded confrontation. Nor does it work according to the Pax Americana that dominated in the decade after the Soviet Union's collapse, when the US briefly emerged as the sole superpower.

Today's world is underpinned by a multipolar order, which emerged from the rise of developing economies – most

notably China – as major actors in trade and finance. The US – not to mention the other G-7 countries – now must compete and cooperate not only with China, but also with India, Brazil and others through expanded forums like the G-20.

To this end, the US must show leadership and adaptability. It cannot refuse to support China's efforts to expand its role in global governance. Nor should it issue harsh rebukes to its allies when they do not follow suit, as it did when the UK announced its intention to join the new China-led Asian Infrastructure Investment Bank (AIIB).

The US seems to be stuck in the Bretton Woods system, the rules-based order – underpinned by the IMF and the World Bank, with the US dollar at its heart – that emerged after World War II. The Bretton Woods system institutionalised America's geopolitical supremacy, leaving the old imperial power, the UK, to step aside – a step that it took graciously, if a little desperately, given its grave post-war economic situation.

Over the years, however, the Bretton Woods system, with its mix of liberal multilateralism and market-oriented economic policies, has come to symbolise the Anglo-American dominance of the global economy that much of the world now criticises, especially since the global financial crisis. In particular, the Washington Consensus – the set of free-market principles that influences the policies of the IMF, the World Bank, the US and the UK – has generated considerable resentment, especially after the Asian financial crisis of the 1990s.

Against this backdrop, it is hardly surprising that China has been using its growing global influence to help engineer a new economic order – one in which the US dollar does not reign supreme. Zhou Xiaochuan, the Governor of the People's Bank of China, China's central bank, has repeatedly called for a shift toward an international monetary system that allows for the use of multiple currencies for payments and investment. Such an approach would reduce the risk and impact of liquidity crises, while decoupling the international monetary system from the 'economic conditions and sovereign interests of any single country'.

Of course, China believes that its own currency, the renminbi, should eventually play a central role in this new monetary system, so that it reflects China's role not only as a leading engine of global economic growth, but also as the world's



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expanding the
renminbi’s role in the
international monetary
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multipolar world order
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what comes next. The result could be a world of fragmented blocs – an outcome that would undermine not only global prosperity, but also cooperation on shared challenges.

largest creditor. Indeed, together with the other systemically important economies (the US, the UK, Japan and the Eurozone) China drives trends that, for better or worse, extend far beyond its borders.

Since 2009, China’s leadership has been pursuing a set of policies that encourage the use of the renminbi in regional trade and reduce its dependence on the dollar in international payments. But expanding the renminbi’s role in the international monetary system is just the first step toward institutionalising a multipolar world order. China has also spearheaded the establishment of new multilateral institutions, with the AIIB following on the heels of the New Development Bank, created with other major emerging economies (Brazil, Russia, India and South Africa).

By taking these steps, China’s leaders have called attention to the inadequacy of the existing international monetary system, and its institutional framework, in today’s complex, multipolar world economy. In particular, China’s agenda highlights questions about America’s capacity to provide the needed liquidity to support international trade and finance.

To be sure, the US is right to wonder whether the new order that China hopes to build will be as open and rules-based as the American-led order – the one that gave China the market access it needed to achieve its spectacular economic rise. But the answer to that question can be found only by engaging China on the issue of reform of global governance – not by denying that change is needed at all.

As the US stubbornly pursues a policy of containment toward China – exemplified in its fight against the AIIB’s establishment, its relentless accusations of currency manipulation, and its refusal to ratify IMF reforms that would increase China’s influence – it risks losing its ability to shape

The spring meetings of the IMF and the World Bank offer an important opportunity to signal a new approach toward China. And there could be no more credible signal than US support for the renminbi’s addition to the basket of currencies that the IMF uses to value its international reserve asset, the Special Drawing Right. America will be in the spotlight once again. But how will it perform?

Paola Subacchi is Research Director of International Economics at Chatham House and Professor of Economics at the University of Bologna.

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Highlights

- China has repeatedly called for a shift toward an international monetary system that allows for the use of multiple currencies for payments and investment
- China believes that its own currency, the renminbi, should eventually play a central role in this new monetary system
- China has also spearheaded the establishment of new multilateral institutions, such as the newly created Asian Infrastructure Investment Bank

美国在多极世界中的领导地位

皇家国际事务研究所(Chatham House)国际经济学研究主管、博洛尼亚大学经济学教授**保拉·苏巴奇**指出，国际货币体系过度依赖美元已属不合时宜。她认为中国及其他发展中国家就于国际货币体系中扩大使用多种货币而施加的种种压力，是使多极世界秩序趋于制度化的第一步。

放弃作为聚光灯下的国际关注焦点，从来不是一件易事。美国现时的心情，就如年华逝去的艺人一样，挣扎于需要将自己久站的舞台与新来者（特别是中国）分享。即将举行的国际货币基金组织(IMF)和世界银行（由美国及其西方盟友主导的两个机构）会议，是一个带来改变的契机。

美国必须面对世界已经改变的事实。美国抱持排斥态度的时间越久，所蒙受的损失便会越大，其在全球的影响力亦会越减（尽管目前它在全球的影响力依然巨大）。现时的世界已非以往的静态冷战时代，由两大阵营公开而又克制地相互对抗，而世界秩序也

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扩大人民币在国际货币体系中的角色，只是使多极世界秩序制度化的第一步。
”



不再像苏联解体后所盛行的“美式和平”般，由美国扮演唯一超级大国的角色。

当今的世界是建基于一个因为发展中经济体之崛起（其中最瞩目的中国）所产生的多极秩序，而在贸易和金融领域中，此等经济体皆扮演著重要角色。美国现时（其他G-7国家更不在话下）不但必须与中国竞争和合作，而且也必须藉G-20等扩大论坛，与印度、巴西及其他国家竞争和合作。

因此，美国必须展现其领导地位和适应能力，不应否定中国欲扩大其在环球治理中扮演的角色所作出的努力。此外，美国也不应因为盟友不效法它的做法而对其作出猛烈抨击，就如英国宣布其有意加入中国所倡议的亚洲基础设施投资银行时所面对的抨击。

美国似乎仍在坚守著布雷顿森林体系而对现时局势置诸不理。布雷顿森林体系是于二战后产生的，一个以规则为基础的新秩序，其骨干是IMF和世界银行，并以美元为核心。布雷顿森林体系将美国的地缘政治霸主地位制度化，迫使昔日的帝国英国退居二线。英国由于须面对战后严峻的经济状况，因此也只得大方地（但也带点儿无奈）将其位置相让。

然而，多年以来，布雷顿森林体系连同所伴随的自由多边主义和市场经济政策，是代表著一个由盎格鲁-美利坚所主导，在现时备受各国批评（特别是在环球金融危机后）的全球经济体系。尤其是，华盛顿共识——一套影响IMF、世界银行、美国和英国政策的自由市场原则——引发了许多国家的巨大不满（特别是在上世纪90年代的亚洲金融危机后）。

在这一背景下，中国利用其不断增长的全球影响力来引导建立一个新经济秩序——一个美元在其中不再享有优

越地位的新秩序——这是完全不足为奇的。中国人民银行（中国的中央银行）行长周小川一再呼吁实行一个允许以多种货币进行支付和投资的国际货币体系。这一途径将可降低流动性危机的风险和影响，并同时让国际货币体系不再与“任何单一国家的经济状况和国家利益”挂钩。

当然，中国认为其货币——人民币——最终应该在这一新货币体系中扮演核心角色，以反映中国不但是全球经济增长的火车头，也是全球最大的债权国。事实上，中国连同其他具系统重要性的经济体（美国、英国、日本和欧元区），一起驱动着远超其疆界的走向（不论是好是坏）。

2009年以来，中国领导层所实行的政策，是鼓励在区内贸易中使用人民币，并在国际支付中减低对美元的依赖。但扩大人民币在国际货币体系中的角色，只是使多极世界秩序趋于制度化的第一步。中国还牵头成立了多个新多边机构，而在亚投行之前，还有中国与其他主要新兴经济体（巴西、俄罗斯、印度和南非）共同成立的新开发银行。

中国领导人通过实施这些步骤，唤起了人们关注现行国际货币体系及其组织机构在当今复杂的多极世界经济中的力有不逮之处。特别是，中国在其议程中质疑美国是否有能力提供必要的流动性以支持国际贸易和金融的所需。

平心而论，美国质疑中国希望构建的新秩序（以让其得以进入市场，从而实现其辉煌经济发展），是否能与美国所领导的秩序一样公开并以规则为本，这确是有其道理的。然而，问题的答案，只能通过将中国导向环球治理改革等议题来寻找，而非断然否定任何改变需要。

由于美国执意采取遏制中国的政策（可见于：其反对亚投行的成立、严厉批评货币操纵、以及拒绝认可该等会致使中国影响力上升的IMF改革），它需要面对在未来丧失话语权的风险。其结果可能是产生一个阵营林立的世界，而这不但会使全球繁荣受损，也会破坏面对共同挑战时相互间的协作。

IMF和世界银行的春季会议将会是一个展示对华新方向的重要机会，而当中最具意义的，莫过于美国愿意支持人民币加入IMF用于为特别提款权（其国际储备资产）计值的一篮子货币中。美国将再一次成为聚光灯下的国际关注焦点，但届时它将会作何取态呢？

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摘要

- 中国一再呼吁实行一个允许以多种货币进行支付和投资的国际货币体系
- 中国认为其货币——人民币——最终应该在这一新货币体系中扮演核心角色
- 中国还牵头成立了多个新多边机构，例如新近成立的亚洲基础设施投资银行

How to avoid issuing clarification announcements



William Wong, Associate, Deacons, outlines some common deficiencies in corporate disclosures which frequently result in the need to issue clarification announcements.

Listed companies in Hong Kong are reminded that insufficient information or deficiencies in corporate disclosures may lead to the issue of clarification or supplemental announcements. This article reminds listed companies of certain aspects of the following types of corporate disclosures to which they should pay attention so as to avoid the need to issue clarification announcements.

- **Announcements relating to resignation of directors** – are they really resigning for 'personal reasons'?
- **Profit warning/alert announcements** – are there specific figures to accompany the profit warning/alert? Is it a 'profit forecast' under the Takeovers Code during an offer period?
- **Announcements relating to continuing connected transactions** – have you disclosed the pricing policies?
- **Annual reports** – have you disclosed the actual use of proceeds from equity fund raisings?

1. Are your directors really resigning for 'personal reasons'?

According to the *Guidance on disclosure when a listed issuer's director resigns*, jointly released by Hong Kong Exchanges and Clearing (HKEx) and the Hong Kong Institute of Directors in 2007, HKEx does not consider it sufficient for listed companies to disclose that their directors have resigned for 'personal reasons'

without further elaboration. We note that in recent years there have been a few instances where listed companies issued clarification or supplemental announcements to further elaborate on the 'personal reasons' for resignation.

Listed companies are reminded to take note of the said guidance in making disclosures when their directors resign. Salient points of the guidance are set out below.

Meaning of personal reasons

'Personal reasons' encompasses only reasons such as illness, bereavement or other genuine personal difficulties that change the director's circumstances, but not reasons such as work-related schedules, disqualification of the director, detainment by the police or other authorities (including imprisonment), change in the listed company's circumstances, or restructuring of the listed company's management teams.

Even where a director's reasons for resignation are personal, directors and the listed companies are expected to make meaningful disclosure.

Restructuring of management teams

In the event of a restructuring of the listed company's management teams requiring individuals to resign their directorship in one company in order to take up a directorship in another company, the listed company should describe the restructuring, the director's new role, and any actual or potential conflicts that may arise, including how such conflicts will be managed.

If a director is appointed as a director of more than one listed company and resigns from only one or some, but not all, of the directorships, it would not be appropriate for a listed company to claim that a director has resigned for personal reasons without further elaboration. The director and the listed company should disclose, at a minimum, why the personal reasons do not necessitate the director's resignation from all of his directorships.

Follow up with the director on his reasons for resignation

In the event a director advises the listed company that he is resigning for personal reasons but the listed company knows or suspects that is not the case, the listed

Highlights

Listed companies should avoid:

- disclosing that their directors have resigned for 'personal reasons' without further elaboration
- using generic boilerplate pricing terms in continuing connected transaction disclosures, and
- issuing profit alerts and warnings which do not include some quantification of the figures involved.

company must apply its knowledge to challenge the director's disclosure. The listed company's further communications with the director should not delay the announcement, rather, the listed company's initial announcement should make it clear that the listed company will follow up with the director and make a further announcement if appropriate.

2. Profit warning/alert announcements

Clear sense of materiality is required
The Securities and Futures Commission (SFC) requires that profit alerts and warnings should provide a clear sense of materiality. Without specific figures, investors have difficulty in realistically assessing the effect of an announcement on the value of the company. Therefore, the SFC expects the following standard of disclosure:

- a range for the expected profit or a percentage increase or decrease in the expected profit from the prior year, and
- quantification of specific factors contributing to the profit or loss (for example, a gain or loss from the sale of property or listed investments).

The SFC's corporate regulation team seeks clarification from listed companies which have not provided sufficiently specific information in their profit warning/alert announcements. We have often seen clarification/supplemental announcements issued for these reasons.

Inside information

As profit warnings or profit alerts are, by definition and generally, expected to be price-sensitive, listed companies should

select both 'Profit Warning' and 'Inside Information' for their profit warnings/alert announcements. Listed companies which select only 'Profit Warning' have to cancel the original posting and revise the headline.

'Profit forecast' under the Takeovers Code

A more complicated issue arises when a listed company (as an offeree company) issues a profit warning/alert announcement during an offer period. In such cases, such announcements would normally be regarded as profit forecasts under Rule 10 of the Takeovers Code and would therefore need to be 'reported on' by both the offeree company's financial advisers and its accountants or auditors in accordance with Rule 10.4.

The SFC will normally be prepared to permit publication of the forecasts



“
the SFC's corporate regulation team seeks clarification from listed companies which have not provided sufficiently specific information in their profit warning/alert announcements
”

without full compliance with Rule 10, on the conditions that:

1. the announcement will contain an appropriate warning that the forecasts do not meet the standard required by Rule 10 and that shareholders and potential investors should exercise caution in placing reliance on such forecasts in assessing the merits and demerits of the transaction, and
2. the forecasts will be reported on as soon as reasonably practicable and the relevant reports will be contained in the next document to be sent to shareholders.

3. Continuing connected transactions – disclosure of pricing policies

Generic boilerplate pricing terms will no longer be sufficient

Listed companies are reminded that generic boilerplate pricing terms in respect of continuing connected transactions (such as: 'prevailing market price', 'prices on normal commercial terms', 'prices based on arm's length negotiations', 'on a costs-plus mechanism', 'government prescribed price') are no longer considered sufficient according to the guidance letter published by the HKEx on pricing policies for continuing connected transactions and their disclosure (HKEx Guidance Letter – HKEx-GL73-14). We have seen a number of clarification announcements issued to provide further information on the pricing terms and policies.

To meet the disclosure requirement, listed companies are reminded to take note of the following salient points of the guidance letter.

“ listed companies are reminded to provide meaningful updates on the actual use of proceeds from equity fund raisings in their annual reports ”

Specific pricing terms

When entering into agreement with connected persons, listed companies should agree on specific pricing terms, such as fixed monetary consideration, a predetermined formula, or fixed-per-unit consideration.

Pricing based on a reference price

If the pricing is determined based on a reference price (for example, a government prescribed price), the listed company should disclose: the name of the government authority or organisation publishing the price, how and where the price is disclosed or determined, and the frequency of update to the reference price.

Transactions of different natures

If the agreement covers transactions of different natures, the listed company should clearly set out the pricing policy for each type of transaction.

Circumstances where specific pricing terms are not applicable

If it is not commercially practical for the listed company to agree with the connected person on specific unit price or contract sum:

- disclose the methods and procedures that management will follow to determine the price and terms of the transactions, and

- explain why its directors consider that the methods and procedures can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the listed company and its minority shareholders.

4. Annual reports – disclosure of actual use of proceeds from equity fund raisings

Listed companies are reminded to provide meaningful updates on the actual use of proceeds from equity fund raisings (such as from IPOs, placings and issue of shares under general mandate or specific mandate) in annual reports, including a breakdown of how the funds were allocated among different uses, as suggested by the HKEx's report issued in March 2014 on review of disclosure of annual reports. We have seen many supplemental announcements relating to annual reports published by listed companies to give further details relating to the issue of shares during the reporting period, including details of actual use of proceeds with breakdown.

William Wong

Associate, Deacons

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China's draft unified Foreign Investment Law

Lester Ross, Kenneth Zhou and Tingting Liu at law firm WilmerHale, examine what China's foreign investment legal system will look like when its new Foreign Investment Law, which was issued for public comment in January this year, takes effect.



China's Ministry of Commerce (MOFCOM) on 19 January 2015 issued the draft unified Foreign Investment Law (draft Foreign Investment Law) for public comment to unify legislation on foreign-invested enterprise (FIEs). A lengthy inter-ministerial consultation process will ensue, followed by State Council approval and enactment by the Standing Committee of the National People's Congress. After the draft Foreign Investment Law takes effect, the Law on Chinese-Foreign Equity Joint Ventures, the Law on Wholly Foreign-Owned Enterprises and the Law on Chinese-Foreign Contractual Joint Ventures (the three FIE laws), which were enacted early in China's economic reform period more than 25 years ago, will be abolished. The draft Foreign Investment Law will ease some restrictions on foreign investors, granting them more access to the Chinese market and creating a more level playing field for overseas companies.

The draft Foreign Investment Law is not intended to be a mere revision of the three FIE laws, but rather is a reform and standardisation of the old foreign investment regime, which consisted of scattered and sometimes inconsistent national and local laws and regulations. The constraints and distinctions between cooperative joint venture, equity joint venture and wholly foreign-owned enterprise will disappear. In general, a 50% threshold (based on equity ownership, voting rights, board control or other forms of control) in place of the existing 25% threshold will determine whether a company is an FIE.

The bottlenecks to be eased include the following:

1. **Over-regulation.** Under the current three FIE laws, all FIEs, regardless of

scale and industry, are required to obtain government pre-approval for establishment, charter documents, governance structures, changes to capitalisation and dissolution. Over-regulation increases supervision and compliance costs, hinders market access and discourages foreign investment.

2. **Inconsistency.** According to MOFCOM spokesperson Sun Jiwen, some provisions of the three FIE laws are duplicative or even in conflict with the Company Law and other relevant laws (including the Partnership Law, Sole Proprietorship Enterprise Law and Securities Law).
3. **Complicated and uncoordinated administrative regulations and rules.** For example, the Regulations on Acquisitions of Domestic Enterprises by Foreign Investors, Notice on Launching the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, Provisions on Changes to Shareholdings of Investors in FIEs, Interim Provisions on Domestic Investment by FIEs, and Regulations on Strategic Investment by FIEs in Listed Companies were promulgated

“foreign investors and their investments will receive treatment that is no less favourable than that accorded to Chinese investors and their investments”

by different administrative authorities at different times in a less-than-fully-coordinated manner.

Mindful of such criticism, the draft Foreign Investment Law is designed to create a unified foreign investment legal regime that deepens institutional reform, further opens China to and advances foreign investment, and improves the regulation of foreign investment management.

The draft Foreign Investment Law features the following in particular.

Deepening institutional reform

The draft Foreign Investment Law transforms the current foreign investment

Highlights

The draft Foreign Investment Law:

- unifies and reforms the old foreign investment regime which consisted of scattered and sometimes inconsistent national and local laws and regulations
- adopts an 'actual control' concept, which means that if the ultimate controller(s) is/are Chinese, the company will be treated as domestic
- increases the transparency of the national security review system for foreign investments

regulation system so that foreign companies will receive pre-entry national treatment, and the case-by-case approval system set forth under the three FIE laws will be replaced by a 'negative list' like that which has been issued in the Shanghai Pilot Free Trade Zone and more ambitious ones being negotiated in bilateral investment treaties with the US and the European Union. FIE contracts and articles of association will no longer be subject to administrative review, but national security and anti-monopoly statements will be required to be submitted for review as part of the application form. This will allow investors greater freedom to organise and operate their businesses. Foreign investment in industry sectors not on the negative list will no longer have to apply for approval, but all foreign investors are obligated to report their investments to the government for statistical purposes. Most foreign investment will no longer be subject to review and approval.

Further opening-up to foreign investment

Under the system of pre-entry national treatment and the negative list, prohibited and restricted categories for foreign investment will be specifically listed in a catalogue, and remaining industries will be fully open to foreign investment. Foreign investors and their investments will receive treatment that is no less favourable than that accorded to Chinese investors and their investments. The encouraged category will be abolished.

Promoting foreign investment

The draft Foreign Investment Law sets out policy measures for promoting international investment, reinforces the protection of foreign investors and their investments, and strengthens

the foreign investment complaint settlement mechanism.

Regulating foreign investment management

The draft Foreign Investment Law relaxes foreign investment access and lets the market play a decisive role in resource allocation. At the same time, it further improves the foreign investment access management system, national security review system, and foreign investment promotion and protection system. It also subjects foreign investors and foreign businesses' investment and operating activities to supervision, and intensifies interim and ex-post regulation.

Adopting a VIE (variable interest entity) structure

Apart from the negative list regime, the draft Foreign Investment Law adopts the 'actual control' concept with its large potential impact on round-trip investments and the so-called VIE structure which is widely used by overseas 'Chinese Concept' listed companies to raise capital on overseas markets and otherwise circumvent restrictions on foreign investment.

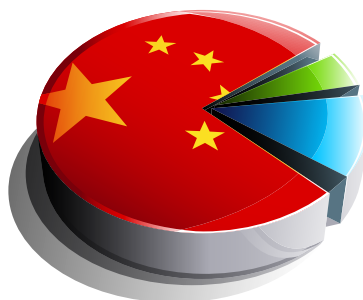
Under the draft Foreign Investment Law, whether a company is foreign-invested will be determined by the nationality of the ultimate controller(s) rather than that of the direct shareholder. The definition of a foreign investor is based on the registration jurisdiction together with who is in control. Article 18 of the draft law defines 'control' to include more than 50% of shares, voting power, seats on the board of directors or other governing body, and significant influence over decision-making power, as well as decisive influence through contract or trust arrangements.

If the ultimate controller(s) is/are Chinese, the company will be treated as domestic. This is intended to hold 'fake foreign investment' or 'round-trip investment' in check while still providing access to overseas capital markets. In the past, Chinese investors would commonly invest in China through foreign companies registered offshore, such as in the Caymans or British Virgin Islands. Such 'fake foreign investment' enjoyed preferential treatment specifically granted to foreign investors. If the draft Foreign Investment Law takes effect in its current form, such round-trip investment will likely be treated as domestic investment, as opposed to foreign investment. While preferences for overseas investment have diminished over time, the new structure will enable access to some treaty-based tax preferences without disqualification from certain industries for being foreign-invested.

Chinese companies that are in fact controlled by foreigners – through VIEs, in which a foreigner controls a domestic company via contractual or trust arrangements – are likely to be treated as FIEs and hence subject to review if the industry comes within the negative list. Foreign ownership is currently restricted or prohibited in key areas of the Chinese economy, including the finance, cultural, education and Internet industries. Under the proposed change, enterprises incorporated on the Chinese Mainland will still be considered FIEs if they are controlled by overseas investors.

MOFCOM has yet to give a definitive answer regarding existing VIE investments if such investment falls within the restricted or prohibited categories. MOFCOM has listed three possible solutions in the Explanation for Draft Foreign Investment Law:

“
the draft Foreign
Investment Law will ease
some restrictions on foreign
investors, granting them
more access to the Chinese
market and creating a
more level playing field
for overseas companies
”



1. where a company using a VIE structure declares to MOFCOM that it is under the control of Chinese investor(s), the VIE structure may be retained and the relevant entity may continue its business operations
2. a company using a VIE structure is required to apply to MOFCOM for certification of being under the control of Chinese investor(s); if the FIE is certified by MOFCOM as being under the control of Chinese investor(s), the VIE structure may be retained and the relevant entity may continue its business operations, or
3. a company using a VIE structure is required to apply to MOFCOM for market access; the MOFCOM will, together with relevant government departments, make comprehensive consideration of such factors as the actual controlling party of the FIE before making a decision.

The VIE structure is particularly widely used in the technology, media and telecommunications (TMT) industries.

Whether this will inhibit the authorities from revoking or not renewing the business licences of VIEs that are actually under ultimate foreign investor control is unclear, but it seems likely that such companies will be forced to transition to domestic control if the industry is on the negative list.

Increasing transparency

The draft Foreign Investment Law includes 27 articles on state security review. This is an advance in transparency compared to the existing body of national security regulations. Under the draft law, foreign investors will have to gain security clearance from the Foreign Investment National Security Review Joint Ministerial Conference (the Joint Ministerial Conference is convened by the National Development and Reform Commission and Ministry of Commerce, with other relevant government bodies as members) for investments that are considered potentially harmful to China's national security. Unlike in the US, foreign investment subject to such review will extend beyond mergers and acquisitions to include greenfield investment, medium- to long-term financing, concessions to

explore or exploit natural resources or infrastructure operations, acquisitions of real property rights, and control of businesses in China or holding the interests of businesses in China via contractual or trust arrangements.

The draft law lists investments in a broad range of sectors, such as defence, energy, grain and other key resources, core infrastructure and key technology, and information networks as potential sectors for review. Foreign investors whose applications have been rejected will not have a right of appeal. The extent to which the government may use the national security review system as a tool to restrict foreign investment, as it has been criticised for doing under the Anti-Monopoly Law, is unclear but the potential is clearly there, especially as requests for review may emanate from society and competitors, among others. One item of progress under the draft Foreign Investment Law is subjecting the national security review to a clear timeframe: a 30-day phase one followed by a 60-day phase two if needed.

The unified Foreign Investment Law, when it takes effect, will fundamentally reform the current foreign investment legal system. Its implementation will depend on detailed supporting regulations and rules, including guidance on national security review, the creation of an information reporting system and progress in negotiating a negative list.

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Wilmer Cutler Pickering Hale and Dorr LLP

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Winding up a listed company by the SFC

In *Re China Metal Recycling (Holdings) Ltd*, the Securities and Futures Commission has obtained its first court order to wind up a Hong Kong-listed company under Section 212 of the Securities and Futures Ordinance.

On 9 March 2015, Justice Harris handed down the 'Reasons for Decision' in *Re China Metal Recycling (Holdings) Ltd* (HCCW 210/2013), seeking to explain comprehensively the principles relevant to a public interest petition presented by the Securities and Futures Commission (SFC) to wind up a company listed in Hong Kong under Section 212 of the Securities and Futures Ordinance (Cap 571) (SFO). The said petition was the first public interest petition of this sort. This article seeks to outline the principles stated in the Reasons for Decision.

Background to the petition

Corporate structure and listing
China Metal Recycling (Holdings) Ltd (the Company) was co-founded by Chun Chi Wai and his wife. Mr Chun was the Chairman of the Company and, until he was removed by the Provisional Liquidators on 26 July 2013, its former Chief Executive Officer. On 10 June 2009, the Company issued a prospectus for a global offering, inviting applications to subscribe for shares in the Company. On 22 June 2009, the shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Ltd. The net proceeds from the listing were about HK\$1,685 million. Mr Chun indirectly controlled 53% of the issued shares of the Company after the listing.

Suspicious business activities and the SFC's responses

According to the prospectus, the Company and its subsidiaries (the Group) mainly engaged in the scrap metal business with two business models:

1. purchasing scrap metal from suppliers and producing recycled scrap metal products, and
2. reselling scrap metal which it had purchased without further processing.

Central Steel (Macao Commercial Offshore) Ltd (Central Steel Macao), one of the wholly-owned subsidiaries of the Company, was the sourcing arm of the Group for the acquisition of scrap metal from international markets for its operation in China. It also claimed to sell scrap metal directly to external customers. Central Steel Macao contributed a very substantial portion of the Group's profit from 2006 to 2008 and thereafter until 2012, and the financial performance of the Group was heavily reliant on the apparent performance of Central Steel Macao. In some of those years the Group's business would have been at a loss but for the profits made by Central Steel Macao.

On 22 December 2009, the SFC began to investigate the affairs of the Group, where its initial focus was on whether persons might have engaged in the disclosure of false or misleading information inducing transactions in the shares of the

Company. Following the investigation, the SFC petitioned for the winding-up of the Company on 26 July 2013 and provisional liquidators were appointed to take over the Company on the same day.

The public interest winding-up petition

Section 212 of the SFO provides that if the winding-up of a corporation falls within the jurisdiction of the Court of First Instance, and it appears to the SFC that it is desirable in the public interest that the corporation should be wound up, the SFC may present a petition on the ground that it is just and equitable to wind up the corporation. This case is the first one where the SFC has invoked this draconian provision.

Public interest

In ascertaining what 'public interest' refers to, Justice Harris reviewed the objectives and functions of the SFC as set out in Sections 4 and 5 of the SFO, which include:

1. protection for members of the public investing in or holding financial products

Highlights

- this case clarifies the principles relevant to a public interest petition presented by the Securities and Futures Commission to wind up a company listed in Hong Kong under Section 212 of the Securities and Futures Ordinance
- 'public interest' is not confined to the economic interests of creditors and minority shareholders, the Court will determine the broader interest of market participants as a whole
- the more serious and extensive the nature of the matter complained of, the greater the public interest is likely to be in restraining or sanctioning it, and therefore the more stringent the remedy necessary to address it

2. minimisation of crime and misconduct in the securities and futures industry
3. secureness of an appropriate degree of protection for the investing public, and
4. suppression of illegal, dishonourable and improper practices in the securities and futures industry.

The public interest is not confined to the economic interests of creditors and minority shareholders, the Court will determine the broader interest of market participants as a whole.

Offending activities leading to the order of winding-up

The Court identified that the dissemination of false or misleading financial information by the Company was in contravention of Sections 298, 300 and 384 of the SFO, as well as Section 342F of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32) (the winding-up provisions). It further held that the more serious and extensive the nature of the matter complained of, the greater the public interest is likely to be in restraining or sanctioning it, and therefore the more stringent the remedy necessary to address it.

The appropriate remedy sanction for fraud in the promotion of a company will normally be the liquidation of the company. For example, in *Re Walter L Jacob & Co Ltd* (1989, 5 BCC 244), it was considered to be in the public interest to wind up the company which 'raised substantial sums of money on misleading documentation and then ceased trading, with the consequence that hundreds of investors have been left with shares of questionable value'.

The Court in particular ruled that the appropriate order in a case where a listing has been obtained by wholly dishonest fabrication of accounts would almost invariably be a winding-up order.

Even if the offending activities have ceased, this would not necessarily mean that a more lenient approach should be taken. The company should not be left to remain in business despite its previous history; the Court by winding up the company will be expressing its disapproval of the company's misconduct.

Evidence of suspicious activities

The forensic accounting expert in the present case performed funds flow tracing exercises on the transfers of funds among Central Steel Macao, its suppliers and customers for the years 2007, 2008, 2009 and 2012. The exercise revealed that the Company had operated round robin funds flow schemes, unusual and lacking in commercial substance, among Central Steel Macao, its suppliers or purported suppliers, and its customers or purported customers in the following manner:

1. funds sourced from the bank accounts of Central Steel Macao were transferred to the suppliers' bank accounts
2. a substantial amount of those funds were almost immediately transferred to the customers' bank accounts, and
3. a substantial amount of those funds were then circulated from the customers' bank accounts back to the bank accounts of Central Steel Macao in no time.

The gross profits were calculated to be overstated between 49% and 73.22%

as a result, whereas the revenues were overstated by 12% to 46.67%.

Further, the evidence of the shipping expert revealed that a large percentage of the purported purchases by Central Steel Macao from its suppliers and the purported sales to its customers were not genuine transactions. The vast majority of the bills of lading were found unlikely to represent genuine shipments, as seen from discrepancies between those bills and those used in the industry.

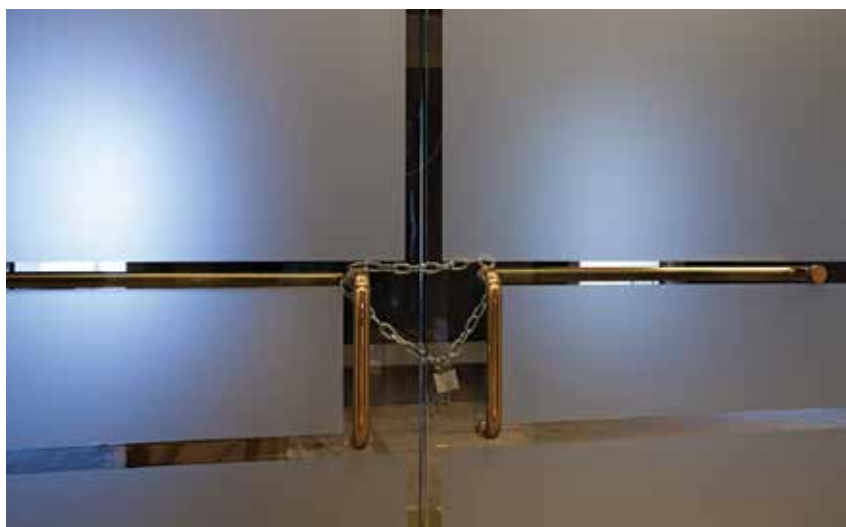
There was also evidence that Mr Chun had fabricated 17 master bills of lading and provided the same to the Company's auditors.

The SFC adduced evidence that most of the suppliers and customers were set up upon the instruction of Mr Chun or persons associated with him, and they shared the same correspondence channels, company secretarial and auditing services, with certain subsidiaries of the Company, Mr Chun and some private companies of his. Certain suppliers/customers in the US were incorporated in 2010 or 2011, and the same were dissolved in 2013 or 2014 after the commencement of the present proceedings.

For almost all of the suppliers involved in the round robin funds flow schemes, there was one or more Hong Kong, US or BVI company with a very similar name to it. A certain 'window company' controlled by Mr Chun, shown to have significant volume of purported purchases by Central Steel Macao in 2007 to 2009, only had a small volume of business in 2004 to 2008, and no business at all since 2009 until it was closed down in 2011.

There was evidence that after the SFC commenced its investigation, Mr Chun

“
 the Court’s favourable attitude
 towards the [public interest
 winding-up] petition in the
 present case may encourage
 the SFC to more readily deploy
 this weapon in future
 ”



instructed an individual to inform persons (including the SFC) that the contact persons of certain suppliers/ customers were some individuals which Mr Chun provided by a name list instead of Mr Chun himself. A former employee of a supplier gave evidence that he had more than once been instructed by Mr Chun to impersonate individuals relating to the suppliers, or to deploy the company stamp of a supplier. A former employee of Central Steel Macao gave evidence of bogus email correspondence including references to previously discussed and agreed transactions, and identical confirmations used in multiple purported transactions. She was told that the Company would like to ‘make up some proof of contact and confirmation for the purpose of coping with (the request of) the auditor’.

The Court's decision

The Court concluded that those in charge of the Company perpetrated a carefully planned and implemented fraud on a massive scale on the investors, the stock exchange and others involved in the listing of the Company, which went directly to the integrity of the listing. It seemed highly likely that Mr Chun caused the round robin transactions and the creation of bogus bills of lading to produce significantly better figures, and in

turn to advance the flotation and induce investors to subscribe for shares. There would appear to have been at the very least serious contraventions of Section 298 of the SFO and Section 342F of the Winding Up Provisions.

The activities of the Company and its subsidiaries and their respective management complained of were not isolated wrongful acts which are unlikely to be repeated. Neither were they wrongdoing which initially was limited in scope but which circumstances caused the instigator to lose control of as it grew. The Court held that the present case would appear to fall firmly into the category of cases in which the Courts take the view that a winding-up order is appropriate.

The Court further noted that, given the gravity of the present case, it would take very strong reasons to deflect the Court from making a winding-up order, and the application for a last-minute adjournment by independent shareholders citing a prospective investor's interest in purchasing the Company in circumstances which indicate that the prospective investor may be related to the instigator of the fraud (that is Mr Chun) fell far short of that. The Court considered that the realisation of the assets of the Company for the benefit of its creditors,

and if there is a surplus, for shareholders, should be carried out in a liquidation under the supervision of an experienced liquidator who could ensure transparency and the propriety of the business, rather than by way of a sale to a prospective investor in unusual circumstances.

The implications of the case

As Justice Harris noted in the beginning of his 'Reasons for Decision', there have been a number of cases in recent years involving fraud associated with listing of business groups in China. The SFC, however, has refrained from deploying its weapon to present a winding-up petition under Section 212 of the SFO until the present case. The Court's favourable attitude towards the petition in the present case may encourage the SFC to more readily deploy this weapon in future, to stop dishonest schemes involving listed companies, and for the Court to appoint independent liquidators to conduct an independent investigation of the company's affairs in the best interests of the public and to realise value for its stakeholders.

Sherman Yan

Head of Litigation & Dispute Resolution, ONC Lawyers

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Professional Development

Seminars: March 2015

11 March
Part XIII and XIV of SFO:
market misconduct – its
coverage and must-know
recent developments



Chair: Richard Leung FCIS FCS(PE), FCPA, Past President, HKICS, and Barrister-at-Law, Des Voeux Chambers

Speakers: Mohan Datwani FCIS FCS(PE), Senior Director & Head of Technical and Research, HKICS; and Peter Lake, Partner, and Mark Hughes, Partner, Slaughter and May

13 March
如何利用珠海横琴的优惠
政策



Chair: Jack Chow FCIS FCS, Professional Development Committee Chairman, HKICS, and Managing Director, Private Equities, VMS Investment Group

Speaker: Joe Zou, Managing Director, China Tax and Business Consultants Ltd

16 March
An effective solution for
solving business conflicts:
mediation and arbitration



Chair: Susie Cheung FCIS FCS(PE), Membership Committee Chairman, HKICS, and General Counsel and Company Secretary, The Hong Kong Mortgage Corporation Ltd

Speaker: Tim Wong, Barrister-at-Law & Accredited Mediator

18 March
Corporate governance
and compliance with
competition law – Hong
Kong, China and EU



Chair: Mohan Datwani FCIS FCS(PE), Senior Director and Head of Technical and Research, HKICS

Speakers: Professor Sandra Marco Colino, Associate Professor, Faculty of Law, CUHK; Frank Fine, Head of International Antitrust, DeHeng Law Offices; and Hu Tie, Partner, DeHeng Law Offices, Beijing

19 March
Proposal on changes to
the corporate governance
code and corporate
governance report



Chair: Ernest Lee FCIS FCS, Professional Development Committee Member, HKICS, and Partner, Assurance, Professional Practice, Ernst & Young

Speakers: Eric Yeung, Partner, and Sylvia Lim, Senior Manager, PricewaterhouseCoopers

23 March
Corporate governance
and developments in
risk management and
internal control



Chair: Eric Chan FCIS FCS(PE), Chief Consultant, Reachtop Consulting Ltd

Speakers: Roy Lo, Managing Partner, Shinewing (HK) CPA Ltd; and Gloria So, Risk Manager, Shinewing Risk Services Ltd

ECPD

Forthcoming seminars

Date	Time	Topic	ECPD points
14 May 2015	6.45pm – 8.15pm	Managing legal risk	1.5
15 May 2015	2.30pm – 5.45pm	Independent directors and controlling shareholders around the world	3
18 May 2015	6.45pm – 8.15pm	Strategic moves to address IT risks in the mobility environment	1.5
21 May 2015	6.45pm – 8.45pm	Cybersecurity and the evolving role of boards	2
27-29 May 2015		第三十七期联席成员强化持续专业发展讲座 (上海)	16
17 June 2015	6.45pm – 8.15pm	International integrated reporting framework/ESG reporting guide – sharing from CLP	1.5

For details of forthcoming seminars, please visit the ECPD section of the Institute's website: www.hkics.org.hk.

What you should know about the MCPD requirements

Members are reminded to observe the MCPD declaration deadlines set out below.

CPD year	Members who qualified between	MCPD or ECPD points required	Point accumulation deadline	Declaration deadline
2014/2015	1 January 2000 - 31 July 2014	15 (at least 3 ECPD points)	31 July 2015	15 August 2015
2015/2016	1 January 1995 - 31 July 2015	15 (at least 3 ECPD points)	31 July 2016	15 August 2016

New MCPD requirement to extend to Graduates

Effective from 1 August 2015, all Graduates are required to comply with the Institute's MCPD requirements.

Annual Corporate Regulatory Update (ACRU) 2015

The Institute once again brings together leading regulators from the Companies Registry, Hong Kong Exchanges and Clearing Ltd, Hong Kong Monetary Authority and Securities and Futures Commission at its 16th ACRU to be held on Wednesday 3 June 2015. Attendees will receive up to seven ECPD points.

Please register at www.hkics.org.hk/ACRU2015.

Professional Development (continued)

2015 Regional Board Secretary Panel meetings in Chongqing and Guangzhou

Following the two Regional Board Secretary Panel (RBSP) meetings held in Beijing and Shanghai in March, the Institute held two RBSP meetings in Chongqing and Guangzhou on 9 and 10 April 2015 respectively. In total, 33 Affiliated Persons, members, and representatives from the Chongqing Listed Companies Association and Guangdong Listed Companies Association, attended the two meetings.

Institute Treasurer Bernard Wu FCIS FCS delivered a presentation at the two meetings on the latest changes to the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules with regard to risk management and internal control. Participants shared their views and experience in relation to these topics. Institute Vice-President Dr Gao Wei FCIS FCS(PE) joined the Guangzhou meeting and Chief Executive Samantha Suen FCIS FCS(PE) joined the Chongqing meeting.

The Institute would like to express its sincere thanks to Changan Minsheng APLL Logistics Co Ltd and China Southern Airlines for their support for the two meetings.



Chongqing meeting



Dr Gao Wei (right) presenting a souvenir to Xie Bing, Board Secretary of China Southern Airlines

Membership

New Graduates

Congratulations to our new Graduates listed below.

Chan Chun Wai
Ko Mei Ying
Leong Hoi Yi
Li Ming Wai
Li Shuk Ling
Ng Chun Mui
Ng Yuet Ching

Institute Event

Annual Convocation 2015

Wednesday 16 September 2015

By Invitation only

New Associates

Congratulations to our new Associates listed below.

Chan Chun Kit	Fan Chun Kit	Li Kam Shuen
Chan Ka Kei	Heung Ka Lok	Li Lai Nar
Chan Kam Yee	Ho Ka Yan	Lo Ho Man
Chan Kit Yu	Ho Wing Chi	Lo Pik Yin
Chan Kwan Wai	Kam Choi Yin, Celia	Man Yun Wah
Chan Wai Kit, Ricky	Kong Pui Sze	Ngai Sin Yee
Chan Wing Yan	Kwok Po Yi	So Lai Yung
Chan Yun Tong	Lai Ka Yu	Tang Cheuk Yin
Chau Fung Mei	Lam Shi Ping	Tsang Man Sze
Chen Lee Han, Annie	Lau Pik Shan	Tsang Wing Tai
Cheng Kwan Yu	Lau Siu Ying, Michelle	Tsui Pui Ling
Cheung Sze Kan	Lee Pui Shan, Jenny	Wong Lei Yi
Cheung Yu Lai	Lee Shuk Woon	Wong Siu Nga
Chia Kar Hin, Eric John	Lee Tak Kei, Lewis	Wong Wing Man
Chuang Yik Ting	Leung Tsz Huen	Wong Yue Yan, Teresa

Membership (continued)

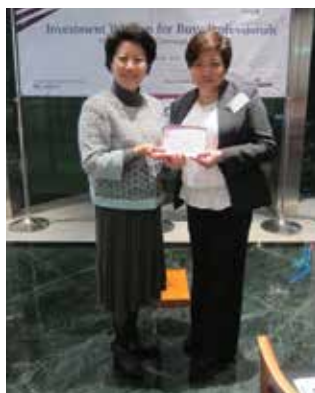
Happy Friday for Chartered Secretaries

The first Happy Friday event for 2015 was held on 27 March 2015. The evening featured an insightful presentation by Agnes Wu Mang Ching (胡孟青) on asset allocation strategies and financial planning. Members found the presentation useful and informative. They also enjoyed the delicious food and drinks and the opportunity to network with one another at the event.

The Institute would like to thank Ascent Partners and Lippo Group for sponsoring this event. More photos are available at the Gallery section of the Institute's website: www.hkics.org.hk.



Agnes Wu



Susie Cheung FCIS FCS(PE) presenting a souvenir to Agnes Wu

Forthcoming membership activities

The Institute is expanding its membership services to cater for the needs of our varied membership in terms of age, interests and experience. Please mark your diary and join the wide range of membership events in the four categories set out below.

1. Mentorship Programme

The Institute's Mentorship Programme will be launched in June/July 2015 to support the development of future leaders in the Chartered Secretarial profession.

2. Member Networking

This is a platform for members to mingle with one another while broadening their understanding of interesting topics.

Welcome Reception for New Graduates/ Associates 2014/2015 (By invitation only)	Friday 8 May 2015 6.30pm – 8.15pm
Visit to Eco-Fish Farm	Saturday 13 June 2015 10.15am – 3.15pm
Happy Friday for Chartered Secretaries – office yoga	Friday 26 June 2015 6.30pm – 9pm
Visit to Tao Heung Museum of Food Culture	Saturday 28 November 2015 10.30am – 3pm

3. Young Group

The Young Group was set up in 2014 for younger members to enrich their business and leadership skills for career development.

Preparing for a successful career	Friday 29 May 2015 6.45pm – 8.45pm
Increasing the value of company secretaries in the world of commerce	Friday 14 August 2015 6.45pm – 8.45pm

4. Community Service

Community service activities will be organised to engage members in giving back to the community as part of the Institute's corporate social responsibility.

Dementia concern and visit	Saturday 18 July 2015 10am – 12.30pm
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Updates will be provided regularly via emails and at the Events section of the Institute's website: www.hkics.org.hk.

Membership (continued)

New Fellows

The Institute would like to congratulate the following Fellows elected in March and April 2015.



Ho Wing Nga, Michelle FCIS FCS

Ms Ho is currently a Director of Ernst & Young (E&Y). She is a core member of the E&Y Corporate Services team in Hong Kong and South China. Ms Ho has extensive experience in outsourcing services in Hong Kong and Greater China. Prior to joining E&Y, she practised in Greater China for over eight years and was responsible for setting up the local practices and Share Services Centre for a global independent outsourcing company. She holds a Master of Corporate Governance from The Hong Kong Polytechnic University. She is also a member of CPA Australia and The Hong Kong Institute of Directors.



Lai Siu Po, Christina FCIS FCS

Ms Lai is currently a Director of Investor Services at Tricor Services Ltd (Tricor). She has extensive experience in corporate secretarial and investor services practices, servicing over 130 Hong Kong-listed issuers. Her expertise in share registration practice extends from registrar services, IPOs and company restructuring to many other complex corporate actions undertaken by listed issuers. Prior to joining Tricor, Ms Lai was an Assistant Manager of Corporate Secretarial Services with Deloitte Touche Tohmatsu in Hong Kong. She holds a bachelor's degree in Accountancy from the City University of Hong Kong.



Lau Ka Chung FCIS FCS

Mr Lau is currently the Financial Controller and Company Secretary with Phoenitron Holdings Ltd (Stock Code: 08066). Mr Lau has extensive experience in handling accounting and external auditing, treasury and finance, regulatory and compliance as well as company secretarial matters. He is also a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr Lau holds a Bachelor of Business Administration (Finance) from The Hong Kong University of Science and Technology and a Master of Corporate Governance from The Hong Kong Polytechnic University.



Yuen Kai Kong FCIS FCS

Mr Yuen is currently a Director of Investor Services at Tricor Services Ltd (Tricor). He has more than 30 years' extensive experience in share registration practice that extends from registrar services, IPOs and company restructuring to numerous complex corporate actions undertaken by listed issuers. Prior to joining Tricor, Mr Yuen spent some years on company secretarial work and was a Manager of Share Registration Services with Deloitte Touche Tohmatsu in Hong Kong. He was appointed a Director of Investor Services at Tricor in January 2011. Mr Yuen is looking after more than 140 listed issuers and is designated to take charge of the Compliance and Investors Relation areas of Tricor Investor Services. He holds a master's degree in Business Administration from The Open University of Hong Kong.

Additional new Fellows



Wong Miu Ling, Phillis FCIS FCS

Head of Corporate Finance and Company Secretary of Shandong Weigao Group Medical Polymer Company Ltd

Yeung Yee Har FCIS FCS

Company Secretary, Right Lane Ltd

Means of receipt of CSj

The HKICS official journal *CSj* and its archive editions from March 2012 are available at the Institute's website: www.hkics.org.hk. The Council, in support of preserving the environment, offers members the option to receive *CSj* electronically from August 2015 onwards. All members, graduates and students may register for the electronic *CSj* (*eCSj*) by completing and returning the reply form to the secretariat on or before 30 June 2015. The form should be sent by email to: member@hkics.org.hk. Those who register for *eCSj* will receive email notification when *eCSj* has been uploaded onto the Institute's website and will not receive the print copy of the journal from August 2015 onwards.

Please complete the reply form accompanying this edition of *CSj*, or download it from the News section of the Institute's website: www.hkics.org.hk. For enquiries, please contact Rose Yeung at: 2830 6051, or Sarah Hui at: 2830 6018, or email: member@hkics.org.hk.

Concessionary subscription fee applications

As an institute established by members and for members, the HKICS continues to consider offering concessionary subscription fees (retired rate, reduced rate or hardship rate subscriptions) to members who fall under any of the criteria listed below.

Retired rate subscription

This applies to members who have:

- attained the age of 55 on or before the beginning of the financial year (1 August) of their application and have been a paid-up member of the Institute for at least 25 years (members who have reached the age of 60 may be exempted from the 25-year membership requirement at the discretion of the Membership Committee), and
- who have retired from employment and are not contributing to the Mandatory Provident Fund Scheme.

*Application deadline for the 2015/2016 financial year:
Tuesday 30 June 2015.*

Reduced rate subscription

This applies to members who have:

- been unemployed for a minimum of six months prior to their application
- ceased to gain an income for health reasons for a minimum of three months prior to their application, or
- circumstances which, in the judgement of the Membership Committee, warrant the reduced rate.

*Application deadline for the 2015/2016 financial year:
Thursday 31 December 2015.*

Hardship rate subscription

This applies to members who have a serious illness or other circumstances which, in the judgement of the Membership Committee, warrant the hardship rate.

*Application deadline for 2015/2016 financial year:
Thursday 31 December 2015.*

Notes to applicants

- All applications must be approved by the Institute's Membership Committee, the decision of which is final.
- Retired rate applications only need to be made once. Retired rate members should keep the Institute informed immediately of any change in circumstances which may affect their entitlement to the retired rate. All other concessionary subscription fee requests (that is, reduced rate/hardship rate subscriptions) are approved on an annual basis.
- If members wish to apply for concessionary subscription fees for the financial year 2015/2016, please submit the relevant form no later than the specified deadlines mentioned above.
- Please download the application form from the Membership section of the Institute's website: www.hkics.org.hk. For enquiries, please contact Candice Yan at: 2830 6016, or Sarah Hui at: 2830 6018, or email: member@hkics.org.hk.

Advocacy

Luncheon with the financial secretary

On 27 March 2015, the Hong Kong Coalition of Professional Services (HKCPS) organised a luncheon with John Tsang Chun-wah, GBM, JP, Financial Secretary as guest of honour. Institute Immediate Past President Edith Shih FCIS FCS(PE), Chief Executive Samantha Suen FCIS FCS(PE), and five Institute Fellows attended the luncheon, where the financial secretary presented his views on how to generate sufficient revenue to meet Hong Kong's long-term needs. The speech was followed by a lively interactive session with the financial secretary and representatives of the 11 professional bodies under HKCPS.



Group photo

Chief Executive attends focus group meeting on Hong Kong's Qualifications Framework

Institute Chief Executive Samantha Suen FCIS FCS(PE) attended a focus group meeting in March 2015 on the technical alignment of the Hong Kong and the European Qualifications Framework. Hong Kong's Qualifications Framework seeks to define the standards of different qualifications and ensure their quality. The alignment project, organised by the Education Bureau and supported by the European Commission, was announced by the secretary for education in November 2014. Hong Kong Shue Yan University (HKSYU) was appointed as the consultant for the project. The focus group meeting sought views from key stakeholders in the community on the methodology and process to ensure that the alignment of the Hong Kong and the European Qualifications Framework is both credible and acceptable from the education and social perspectives.

Appointments

Institute Member Professor Low Chee Keong FCIS FCS has been re-appointed by the Securities and Futures Appeals Tribunal as a member of the Tribunal for a term of two years with effect from 1 April 2015.

Institute Member Dr Kam Pok Man FCIS FCS will represent the Institute as a member of the Panel of Adjudicators of the 2015 Best Annual Report Awards organised by the Hong Kong Management Association. Assisted by Institute Member Richard Law FCIS FCS, Dr Kam will take part in the adjudication process to review the annual reports in the competition.

CSIA Executive Committee meeting and the launch of a new CSIA publication on shareholder engagement

Past President of HKICS and Corporate Secretaries International Association (CSIA) and Company Secretary of CLP Holding Ltd, April Chan FCIS FCS(PE), and Chief Executive Samantha Suen FCIS FCS(PE) attended the Executive Committee meeting of CSIA in New York from 16 to 17 April 2015.

On 17 April 2015, CSIA launched its *Shareholder Engagement: Practical Steps for Corporate Secretaries* in a webinar co-hosted by Computershare. CSIA's new publication stresses the vital role that corporate secretaries play in ensuring that corporate boards and investors communicate with each other about significant performance and governance issues. April Chan shared her knowledge and experience in shareholder engagement together with industry experts from Australia, South Africa and the US. Over 470 people registered to participate in the webinar.

The new CSIA initiatives on shareholder engagement will be covered in more detail in next month's CSj.



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Advocacy

Academic Cocktail 2015

On 10 April 2015, the Institute held its Academic Cocktail – an annual event which aims to nurture a closer working relationship with representatives from local universities and educational institutions. Institute President Dr Maurice Ngai FCIS FCS(PE) thanked the participants for their support and contributions to the Institute. Dr Ngai also highlighted the Institute's latest developments as well as its new initiatives for the year.



International Qualifying Scheme (IQS) examinations

June 2015 diet reminders

Examination timetable

	Tuesday 2 June 2015	Wednesday 3 June 2015	Thursday 4 June 2015	Friday 5 June 2015
9.30am - 12.30pm	Hong Kong Financial Accounting	Hong Kong Corporate Law	Strategic and Operations Management	Corporate Financial Management
2pm - 5pm	Hong Kong Taxation	Corporate Governance	Corporate Administration	Corporate Secretaryship

Admission slips

Admission slips, together with 'instructions to candidates', will be posted to candidates during the second week of May 2015. The slip specifies the date, time and venue of the examination. Candidates are also reminded to read through the instructions to candidates before taking the examination.

For enquiries, please contact Ruby Ng at: 2830 6006, or Mandy So at: 2830 6068.

Recommended reading update

A new edition of *Hong Kong Company Secretary's Practice Manual*, published by Wolters Kluwer (Law & Business), has been released. An exclusive 15% discount is offered to HKICS members and students who make the order via direct payment to Wolters Kluwer HK Ltd on or before 31 May 2015.

For enquiries, please contact Wolters Kluwer HK Ltd at: 3718 9180.

Studentship

HKICS professional seminars

The Institute organised four professional seminars to promote knowledge and understanding of the Chartered Secretarial profession among university students.

Date	Institution	Speaker	Topic
18 March 2015	The Hong Kong Polytechnic University	Dr Brian Lo FCIS FCS(PE)	Corporate risk and risk management framework
24 March 2015	Hang Seng Management College	Patrick Sung FCIS FCS	Company secretarial profession in Hong Kong
31 March 2015	The Chinese University of Hong Kong	Polly Wong FCIS FCS(PE)	Company secretarial profession in Hong Kong
17 April 2015	Hong Kong Shue Yan University	Paul Stafford FCIS FCS	Risk governance



Dr Brian Lo presenting to students of The Hong Kong Polytechnic University



Paul Stafford presenting to students of the Hong Kong Shue Yan University

Studentship (continued)

Networking Day 2015 at Lingnan University

The Institute participated in the Lingnan University Networking Day on 19 March 2015 and promoted the Chartered Secretarial profession and its Student Ambassadors Programme to visiting recruiters and students.

Student Ambassadors Programme (SAP) visits

The Institute organised visits to the Companies Registry on 17 March 2015 and Tricor Services Ltd on 17 April 2015 to further understanding of the Chartered Secretarial profession among the Institute's student ambassadors. The Institute would like to thank the two organisations for their generous support.



Visit to the Companies Registry



Visit to Tricor

The Open University of Hong Kong – New Students Orientation for Master of Corporate Governance Programme

On 30 March 2015, an orientation for Master of Corporate Governance (MCG) programme students was organised at The Open University of Hong Kong to introduce the Institute and its studentship requirements. MCG programme alumnus Simon Lee ACIS ACS shared his study experience with the attendees.

Hang Seng Management College SACG inauguration ceremony

On 31 March 2015, Institute Chief Executive Samantha Suen FCIS FCS(PE) was invited to be a guest speaker at the inauguration ceremony of the Students Association of Corporate Governance (SACG) of Hang Seng Management College. The Institute congratulates the students of Hang Seng Management College on the establishment of the SACG.



SACG President, Andrew Law, presenting a souvenir to Ms Suen

Payment reminders

Studentship renewal

Students whose studentship expired in March 2015 are reminded to settle the renewal payment by Friday 22 May 2015.

Exemption fees

Students whose exemptions were approved via confirmation letter on 5 March 2015 are reminded to settle the exemption fee by Friday 5 June 2015.



SPECIALIZED

CPD training programme
for Listed Companies

Corporate Governance
& Internal Control

Business & Asset
Valuation

Financial
Reporting

Listing Rules
Compliance

LISTCO CPD TRAINING in **2015**

Earnings per Share "EPS" calculation

Speaker(s) : **Mr. Joel Chan, ZHONGHUI ANDA CPA Limited**

Date : 20 May 2015

Making sense of ESG Reporting

Speaker(s) : **Professional(s) from PwC Hong Kong**

Date : 10 June 2015

Practical Tips on handling Inside Information under the Listing Rules' requirement / Notifiable Transactions update

Speaker(s) : **Professional(s) from Deloitte Touche Tohmatsu**

Date : 8 July 2015

D&O Insurance - What is the devil in the details? A practical sharing

Speaker(s) : **Mr. William Lo, International Insurance Group**

Date : Sep 2015

Practical tips for setting up & monitoring Internal Audit function

Speaker(s) : **Professional(s) from PwC Hong Kong**

Date : 14 Oct 2015

ESG report preparation

Speaker(s) : **Professional(s) from Deloitte Touche Tohmatsu**

Date : 28 Oct 2015

Do's and Don'ts of Listing Rules from accounting perspective

Speaker(s) : **Professional(s) from PwC Hong Kong**

Date : 11 Nov 2015

Revenue Recognition & Financial Reporting Standard Updates 2015/16

Speaker(s) : **Mr Nelson Lam, Nelson Consulting Limited**

Date : Dec 2015

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