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CONTENTS

FLOATING IN HONG KONG

Malaysian companies make up the second largest group of foreign firms on the Hong Kong stock exchange, with three of them listing there last year. Senior officials from BDO give their take on why an IPO on the HKEx may be preferable to Bursa Malaysia.

A platform to attract foreign investors

Many Malaysians are no strangers to the Hong Kong stock market. Local fans of TVB dramas have probably watched shows centred on the ups and downs of the city's bourse.

On a more serious note, a number of prominent Malaysian tycoons have floated their companies' shares on the Hong Kong Exchanges and Clearing Ltd (HKEx). They include Tan Sri Quek Leng Chan, who listed Guoco Group Ltd in the 1980s; Tan Sri Tiong Hiew King, who floated Media Chinese International Ltd's shares in the 1990s; and Tan Sri William Cheng with Parkson Retail Group Ltd in the 2000s.

As at Jan 25 this year, there were 1,719 companies listed on the Main Board of HKEx and 270 on the Growth Enterprise Market, with a total combined market capitalisation of HK$25,851 billion. Interestingly, there are 110 foreign companies listed on the HKEx, 15 of which are Malaysian companies — making them the second largest group after Taiwanese firms (see table).

In recent years, it appears that there has been an increasing interest among Malaysian companies in getting listed in Hong Kong. Last year alone, three Malaysian companies, namely TEM Holdings Ltd, Gemilang International Ltd and Worldgate Global Logistics Ltd, floated their shares on the HKEx.

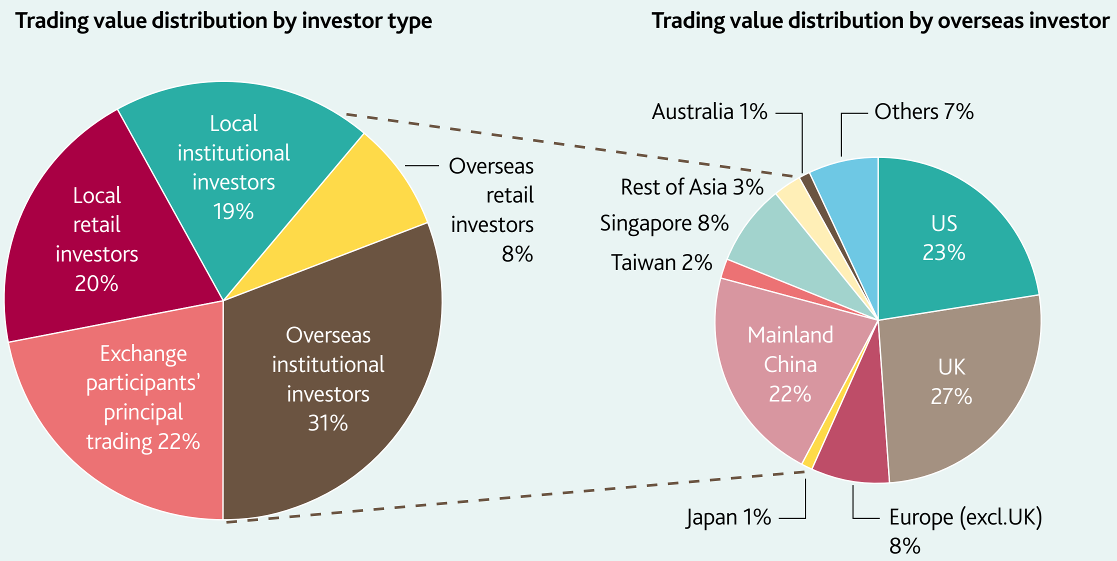
Senior officials from BDO International Ltd tell *The Edge* that many Malaysian companies are attracted to the city's bourse due to its faster time to market, richer valuation and more diversified investor base.

Clement Chan, managing director for assurance at BDO Kong Kong, opines that the HKEx provides a platform for Malaysian companies to attract foreign investors and make a name for themselves in the international arena.

"The spread of investors in Hong Kong is very wide. You cannot even think of an international bank that doesn't have a presence here," he says.

Diverse and growing global investor base

HKEx enables access to critical mass of international institutional investor base and also Asian Mainland Chinese investor base



Note: Numbers may not add up to 100% due to rounding

While Chan acknowledges that there are obvious home-ground advantages of undertaking initial public offerings (IPOs) on Bursa Malaysia, he points out that the HKEx is a good alternative for Malaysian firms.

"Hong Kong has always been an open international market. As a matter of fact, the HKEx is one of the most international stock exchanges, not just in this region but in the whole world," he stresses.

Chan highlights that Malaysian companies seeking an IPO in a foreign capital market would naturally be looking at the liquidity of that market, as well as the presence of international investors.

"If you are listed in a very liquid and fluid market, you will have an advantage when you issue shares to raise fresh capital or to acquire businesses and assets for growth. The acceptability of, and accessibility to those shares... it makes a lot of difference," he explains.

Chan heads the audit and assurance practice of BDO Hong Kong and is the immediate past president of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in the fields of audit, risk management and capital markets, and has assisted many companies in their HKEx IPO exercises.

According to him, the total capital raised from IPOs in Hong Kong has topped other global markets for two consecutive years, with over US$25 billion raised in 2016 – even more than New York and London. Every day, about US$10 billion worth of shares are traded on the HKEx.

Of the three Malaysian companies that were listed on the exchange last year, BDO had assisted two – Worldgate and Gemilang International.

Chan says Hong Kong is a well-recognised international financial centre. It has a robust legal system as well as transparent governance and listing rules, he adds.

"Because of the totality of these facts, it actually attracts a big cluster of institutional investors, making Hong Kong an attractive listing destination."

BDO International is among the top five largest accountancy networks in the world. Last year, BDO Hong Kong completed **15** IPOs, ranking it the **fourth** most active reporting accountant on the Hong Kong IPO market with a market share of 13%.

Stephen Darley, CEO Asia-Pacific at BDO International, says the HKEx easily stands out as the stock exchange with the most diversified investor base.

"When we talk about liquidity, we have to look at what's driving that – access to the Chinese market with a population of 1.3 billion, the institutional investors who are sitting there ... that's the difference," he adds. (See pie chart.)

"Not many stock exchanges in the world enjoy the presence of these groups of investors, who serve as the backbone of the liquidity. I don't think you will get 60% to 70% of the international investors in the Malaysian market, or even in New York, London and Sydney," says Darley.

BDO has representation across Southeast Asia, with member firms in all 10 Asean nations. As an international firm, it can assist its clients in listing in Hong Kong, Malaysia, Singapore, Australia or anywhere else in the world – it is up to the clients to decide where they want to go, Darley remarks.

At home, BDO Malaysia is also one of the "Big 5" professional services firms, which provide audit, business services outsourcing, advisory and tax services to businesses and corporations.

Datuk Feizal Mustapha, chairman and executive director of advisory at BDO Malaysia, is of the view that in the global environment today, where capital, resources and information are readily accessible, Malaysian companies – as with companies throughout the world – have the option to list anywhere. While each listing destination has its pros and cons, companies should list in a market that presents them with the most benefits, he says.

"As a Malaysian, of course I would promote Bursa Malaysia as the preferred listing destination for Malaysian companies, as my colleague, Clement, would do so for Hong Kong." The fact remains though that local companies have many choices available to them, and their decision depends on their needs as well as the listing cost, their state of readiness and presence or footprint locally, regionally or globally, says Feizal.

This article first appeared in The Edge Malaysia on 20 February 2017.

Malaysia-based companies listed in Hong Kong

LISTING DATE	ISSUER	BOARD	PLACE OF INCORPORATION	INDUSTRY	MARKET CAP (HK$ MIL)
Nov 11, 2016	Gemilang International	Mainboard	Cayman Islands	Commercial vehicles & trucks	443
July 6, 2016	Worldgate Global Logistics	GEM	Cayman Islands	Air freight & logistics	376
May 18, 2016	TEM Holdings	GEM	Cayman Islands	Industrial components & equipment	222
July 3, 2013	CAA Resources	Mainboard	Cayman Islands	Iron & steel	2,400
Feb 10, 2009	RCG Holdings	Mainboard	Bermuda	Software	1,500
Dec 22, 2008	Ding He Mining Holdings	Mainboard	Hong Kong	Other metals & minerals	617
Nov 30, 2005	Parkson Retail Group	Mainboard	Cayman Islands	Department stores	2,331
Feb 8, 2002	V.S. International Group	Mainboard	Cayman Islands	Industrial components & equipment	578
Nov 30, 2000	Genting Hong Kong	Mainboard	Bermuda	Travel & tourism	19,340
July 7, 1998	Tan Chong International	Mainboard	Bermuda	Automobiles	5,033
Oct 3, 1991	Public Financial Holdings	Mainboard	Bermuda	Banks	3,722
Mar 22, 1991	Media Chinese International	Mainboard	Bermuda	Publishing	1,822
May 3 1983	Guoco Group	Mainboard	Bermuda	Investment & asset management	28,792
Oct 31, 1972	Lam Soon	Mainboard	Hong Kong	Agricultural products	2,166

BDO SUPPORTS THE CHKLC DIRECTOR TRAINING SERIES FOR THE SEVENTH CONSECUTIVE YEAR


CHKLC 香港上市公司商會
THE CHAMBER OF HONG KONG LISTED COMPANIES
CHKLC DIRECTOR TRAINING SERIES 2017
A six-part training programme aiming at supporting directorship in Hong Kong
Programme Partner: BDO Limited

Running from May to November, the programme comprises six sessions dealing with the important aspects to directorships for a listed company, ranging from corporate governance, risk management to the latest updates in various applicable rules and laws. The programme will also address common issues faced by directors.

BDO Director & Head of Specialist Advisory Services Kenneth Yeo, Director of Tax Services Carol Lam, Principal of Tax Services Leo Li and Senior Manager of Risk Advisory Services Ricky Liu are invited to speak on some of the important aspects of directorship for a listed company.

The schedule and topics for the forthcoming sessions are shown below:

Dates	Topics
9 May (Tue)	Board Management: Directors Responsibilities for Delegation to and Reliance on Third Parties
13 June (Tue)	Crisis Management and Resumption of Trading
11 July (Tue)	Role of the Board and Directors in Tackling Cybersecurity and Fintech Issues
12 September (Tue)	Hong Kong and PRC Tax Treatment on Director's Fee Income and Remunerations and the Latest Development of Transfer Pricing in Hong Kong and the PRC
12 October (Thur)	Considerations for Takeovers, Mergers and Acquisitions
7 November (Tue)	Annual Regulatory Update 2017

If you are interested in attending the programme, please enroll with CHKLC directly. For more information, visit their website at www.chklc.org.

HOW IS THE EVOLUTION OF MACAU'S ECONOMY IMPACTING INVESTORS' BUSINESS STRATEGIES?

There have been some big changes since the opening of the gambling industry in Macau some 15 years ago. Today, Macau's casino market is the largest in the world; it is thought to be seven times bigger than that of Las Vegas and it is still the only place in China where gambling is legal.

Macau has been transformed into a gaming hub, which is being powered even further by the development of major hotels, shopping centres and residential complexes. With the development of the Hengqin New Area (one of China's special economic zones located within walking distance of Macau) and the completion of the Hong Kong–Zhuhai–Macau Bridge scheduled for the end of 2018, Macau is connecting the nearby cities of the Pearl River Delta, potentially broadening its target market. In recognition that Macau's huge gaming sector is dominating the city's economy, the government of the Macau Special Administrative Region (SAR) has already made considerable efforts to diversify the economy; for example, through the development of non-gaming industries to evolve the economy into one that focuses on gambling, tourism, entertainment, culture and creativity. Likewise, the city's simple and low taxation regime and its free port, with no foreign exchange controls, contribute to creating a business environment that attracts overseas corporations to incorporate companies in Macau. Macau has become an offshore financial centre, a free port and a tax haven.

The latest Macau rates for profits (complementary) tax and salaries (professional) tax, in addition to tax-relief measures approved in the government budget for the 2017 Financial Year, are shown in **Tables 1** and **2**.

However, there are factors that could threaten Macau's current prestige: mainly the shortage of professionals available to meet the ever-increasing demand amongst existing and new corporations in various industries and government departments. According to the statistics, there is only a small pool of qualified professionals and the supply of fresh graduates from local universities and technical institutes in the most sought-after disciplines, such as IT, accounting and finance, business and management, law and engineering, is far lower than required to meet demand. The economy lacks a dynamic and broad-based supply of labour to satisfy the high demand for professionals in the booming industry sectors; in particular, tourism, gaming and hospitality. In response to these challenges, some multinational corporations are considering alternative solutions, such as hiring non-resident employees from mainland China and other countries, automating certain processes and procedures, and outsourcing back-office work to external service providers.

To ease the difficulties caused by the long-term shortage of professional manpower, the government of the Macau SAR has implemented an e-filing system for certain recurring statutory requirements.

With effect from 1 November 2016, employers in Macau SAR can report and pay Social Security Fund (FSS) contributions through the e-filing system. (The latest monthly FSS contribution amounts for employers and employees, with effect from 1 January 2017, are shown in **Table 3**) In order to use the e-filing system, employers must apply for an e-Pass account. Once they have an e-Pass account, they can file and pay employee FSSs online. The sole master e-Pass account must be registered by a permanent resident of the Macau SAR.

The Finance Services Bureau (DSF) in Macau has also made available an e-filing system

Table 1. Latest profits tax (complementary tax) rates in Macau

Annual assessable profits (MOP)		Profits tax rate
From	To	
0	600,000	0%
600,001	and above	12%

Notes
Companies incorporated in Macau are separated into two groups. Companies in Group A must adhere to proper accounting requirements and maintain capital levels of at least MOP1,000,000. Companies in Group B are either companies that are filing their tax returns for the first time or companies that do not meet the capital requirements for businesses in Group A. Companies in Group B are taxed based on assessed profits, whilst those in Group A are levied on certified tax returns submitted to the Macau Finance Bureau.

Table 2. Latest salaries tax (professional tax) rates in Macau

The salaries tax rates are progressive and cumulative up to a maximum of 12%.

Assessable annual income (MOP)		Salaries tax rate
From	To	
0	144,000	0%
144,001	164,000	7%
164,001	184,000	8%
184,001	224,000	9%
224,001	304,000	10%
304,001	424,000	11%
424,001	and above	12%

Notes
1. The amount of salaries tax due each year is calculated based on the above statutory tax rates and is subject to a 30% waiver in accordance with the tax-relief measures announced in the budget of the government of Macau for the 2017 financial year.
2. Sixty per cent of the salaries tax paid for the 2015 assessment year will be refunded to taxpayers who held a Macau Resident Identity Card on 31 December 2015, up to a limit of MOP12,000.00. Salaries tax reduction for the 2016 assessment year has not yet been announced by DSF.

Table 3. Monthly Macau Social Security Fund (FSS) contributions (1 January 2017)

	Employer's contribution for local employee (MOP)	Local employee's contribution (MOP)
Amount per month	60.00	30.00

Notes
Non-resident employees are exempt from FSS contributions, but employers are required to pay a monthly government levy of MOP200 per non-resident employee to the FSS bureau.

through which employers can submit salaries (professional) tax returns for employees. To use the e-filing system, the employer's legal representative must apply to the DSF for an account and submit the relevant tax returns online using the designated user ID and password. For organisations involved in the banking and finance industry, the entity's legal representative must apply for an enterprise qualified electronic signature pack under eSign Trust through the Macau Post & Telecommunications Bureau.

On the one hand, the implementation of the e-filing system gives Macau employers more flexibility, enabling them to comply with the statutory requirements related to employment and to process the relevant payments online for their local employees. Alternatively, employers can engage outsourcing service providers to carry out such processes, inside or outside Macau's border.

On the other hand, the official languages of the Macau SAR are Chinese and Portuguese and all statutory forms and documents are provided in these two official languages. This may trigger demand amongst multinational corporations from English-speaking countries for local professionals or outsourcing service providers who are proficient in the official languages to ensure compliance with local statutory requirements on their behalf.

The business environment in Macau is likely to remain complex and challenging, and it will stay this way in the medium to long term. On the one hand, the evolution of the Macau economy is creating business opportunities for local and overseas investors; in particular, hospitality-related services and consumables, retail, gaming equipment, building and architectural services, entertainment and recreation services, sports equipment, IT infrastructure and security equipment, exhibitions and conference services. To fulfil the requirements of investors, the government of the Macau SAR has already put in place appropriate short-, medium- and long-term strategies and development plans from 2016 to 2036. On the other hand, investors are concerned about the current situation and should readjust their investment strategies to the city so as to appeal to a wider target market in the future.

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CYBERSECURITY – STARTING WITH THE BASICS

For many businesses and critical infrastructures, information technology (IT) has become an enabler, rather than the facilitator it was in the past. More than ever, organisations are relying on IT to support their core functions, create efficiency and be better connected to their customers by delivering cost-effective and user-friendly products and services. However, the introduction of new technologies and features required to continue to meet these demands with success is accompanied by an increase in vulnerability and risk.

In 2016 we witnessed numerous high-profile security breaches around the globe, spanning every industry – from incidents involving the disruption of critical infrastructure to massive data breaches where data was stolen from millions of personal accounts. No business, big or small, can ignore cybersecurity. Small and medium-sized enterprises (SMEs) are often an easier target due to limited security investment and weak infrastructure.

The trend in cyber breaches is set to continue in 2017, with greater ferocity and wider geographical coverage.

IoT and BYOD

The networking giant Cisco estimates that the number of Internet of things (IoT) devices will increase to 50 billion worldwide by 2020 [1]. Companies are encouraging employees to bring their own devices (BYOD) to work to save on costs. As a result, more smart devices holding sensitive information are becoming interconnected, each serving as a potential entry point for attackers.

Data manipulation

Data theft can be expected to shift from pure data extraction to malicious manipulation.

Automated tools

Hackers need less experience than they used to, as automated hacking tools are continuously becoming more sophisticated, easier to master and readily available.

Ransomware

Crypto-ransomware will grow and spread into many types of IoT devices, holding sensitive data that is released only after ransom sums have been paid.

In the midst of all the buzzwords and technical jargon, the most important question business leaders should be asking themselves is: How does my organisation approach its cyber-risk strategy?

Six areas to consider for an effective cybersecurity programme

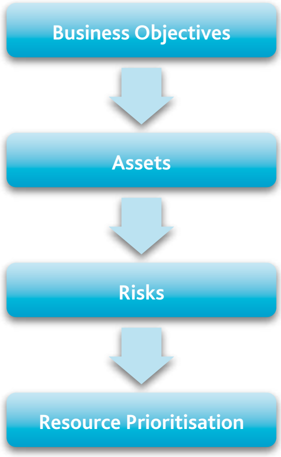
To successfully develop and maintain an effective cybersecurity programme, we propose six main areas for consideration (see **Diagram 1**):

Diagram 1

Business alignment

The primary goal of information security is to enable your organisation to meet its strategic objectives. Policies and controls need to be meaningful. Enterprises need to align themselves with these goals by understanding the enterprise's risk appetite, its core assets (including functions, processes, intangible and tangible assets) and the risks that these assets are exposed to (see **Diagram 2**).

Diagram 2



A holistic approach must be taken when identifying risks: consider all connections, vendors, suppliers, outsourcing partners and other business partners. Attackers often use these external entities as indirect entry points in order to reach their intended target. In 2014 the US's second-largest discount retailer, Target, was hacked. The attacker stole network credentials from a third party (a heating, ventilation and air conditioning provider) before gaining access to Target's system [2].

Another important risk consideration is the increasingly complex legal and regulatory environment. Enterprises need to understand their industry regulations, the data-protection rules in the countries they operate in, and the requirements of national cybersecurity law.

A number of regulators in the Asia-Pacific (APAC) region are taking significant steps toward meeting the growing cybersecurity challenge, narrowing the gap between APAC countries, Europe and the US. In June 2017, China's new cybersecurity requirement for companies to report network security incidents to the government will come into force. However, 40 global business groups have raised concerns over the new law, specifically over the vague requirement of providing 'technical support' to security agencies during investigations. This may imply that businesses have a legal duty to hand over sensitive customer data or allow government surveillance through a 'back door'.

A system can never be risk-free and organisations do not have a blank cheque for cybersecurity costs. As such, a cybersecurity programme is about making businesses less of an easy target by prioritising risks and putting safeguards and counter-measures in place within resource limits. The total cost of control should be less than the value of the asset it is trying to protect; highest to lowest levels of critical importance should be established, based on risk exposure against asset value, in order to avoid spending thousands of pounds on fixing a $100 problem.

Diagram 3

Resource

Cybersecurity is no longer just an IT issue; it is a board issue and a business risk. Effective cybersecurity requires ownership, accountability and skilled leaders at a senior level to drive the message out to the entire organisation. Empowered, knowledgeable professionals are required to implement and maintain the programme. As the current shortage of cyber experts continues, organisations need to identify the skill gap and commit to either developing the necessary skills internally or finding the right resources externally through third-party services.

Numerous global surveys have shown that most businesses leaders recognise the importance of cybersecurity. However, many are still reluctant to improve their security postures because they believe the costs are prohibitive. While cybersecurity will inevitably require investment, the benefits will far outweigh the potential damages. Not all risks are created equal, so prioritising assets and risks plays an essential role in reducing unnecessary costs.

Fortification

When defining controls, there is no one-size-fits-all solution. Each industry and enterprise has a unique risk profile. The decision about which controls are required needs to be driven by business goals and a balance must be found between integrity, confidentiality and availability of data and systems.

Get the basics right first: start by focusing on a subset of critical controls that can be implemented, enforced and monitored in an automated fashion with the highest payoff.

For instance, details of new vulnerabilities appear in the public domain very quickly after discovery: exploit databases, such as exploit-db (hosted by Offensive Security) has nearly 37,000 entries. This information is available to anyone, including attackers. Fortunately, vendors frequently release fixes. To avoid a whole range of known vulnerabilities, enterprises simply need to stay 'patched'. The challenge comes when there are hundreds of devices and applications to keep track of, and this is when an automated patch-management system becomes useful.

Recognised information-security frameworks (such as the COBIT 5 ISO27000 series and NIST's SP 800 series) can be used as a blueprint to assist in defining the controls required and building security programmes in a structured and systematic way.

Developing a cybersecurity strategy is not a one-off effort; it needs to evolve within the ecosystem in which it exists (see **Diagram 3**).

An inherent risk assessment will help your enterprise to understand its risk profile and expected maturity level for each area assessed. The result can be compared with an actual maturity assessment in order to identify any gaps in maturity levels. Any gaps identified should be used as a base to create a roadmap to the desired maturity levels.

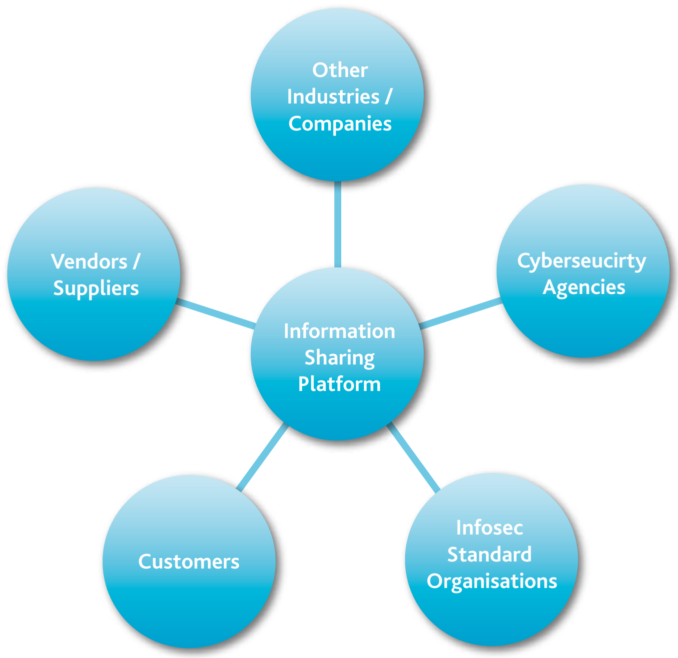
Intelligence

Businesses are often reluctant to share information about security incidents, due to concerns about reputation damage, attacker retribution and legal ramifications. This thinking has to change: in the realm of security, organisations are always one or two steps behind the criminals.

Symantec's 2016 Internet Security Threat report identified that one new zero-day vulnerability was found every week in 2015, and more than 430 million new unique pieces of malware were discovered in the same year [3].

As cybercriminals become more collaborative, so should legitimate enterprises. Better information-sharing platforms will reduce the window of opportunity for attackers to re-use successful methods of attack on other victims: promoting innovation is a cyber-defence (see **Diagram 4**).

Diagram 4



Preparedness

Achieving 100% security is impractical, as a determined and skilled hacker will eventually compromise a system to a certain extent. By the time a breach happens it is already too late – the cost is far more than that of being prepared in the first place. Organisations need tried-and-tested plans to detect, respond to and recover from security incidents. The consideration is not just a technical one; it also involves business continuity, reputation management and legal, regulatory management (see **Diagram 5**).

In 2015 TalkTalk, a UK telecommunications provider, suffered a significant and sustained cyberattack, during which the personal and banking details of up to four million customers were thought to have been accessed. The attacker exploited SQL injection vulnerability, a technique that had been well known for over two decades and for which fixes were available.

TalkTalk was fined £400,000 by the Information Commissioner's Office (ICO). However, the financial damage extended well beyond that: with the loss of 101,000 customers and a drop in its share price and revenue, TalkTalk's 'exceptional costs' totalled over $50 million as the company dealt with website restoration in addition to the public affairs and legal costs [4].

When devising these essential plans, organisations must not limit their thinking to within their boundaries. External relationships must be considered too. For instance, what if a third-party service provider is hacked and sensitive information is stolen, or their ability to provide services is disrupted? How will your organisation deal with that?

Diagram 5

Business Continuity Plan
- Procedures for sustaining core business operations while recovering from a significant disruption

Disaster Recovery Plan
- Procedures to facilitate the recovery of capabilities

Incident Response Plan
- Strategy and procedures to detect, respond to and limit the consequences of malicious cyber incidents

Crisis Management Plan
- Provides effective coordination among the managers of the organisation during a disruptive event

Testing and training

No plan or control is going to survive the constantly changing landscape of cybersecurity. Every part of the security programme needs to be periodically tested, continuously monitored and frequently updated.

Employees are always going to be the weakest link in the security chain, simply because human and system interactions are inevitable and we cannot control human behaviour as far as we can automated systems and controls.

In the 2016 Cyber Security Intelligence Index [5], IBM found that 60% of all attacks were carried out by insiders. Of these attacks, three-quarters involved malicious intent, and one-quarter involved inadvertent actors.

However, with appropriate HR procedures, continuous awareness and technical training, users can also become a great preventive and detective mechanism, especially against social-engineering attacks, and help to spot unusual internal and external user activity.

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UPCOMING AMENDMENT TO THE STATUTORY MINIMUM WAGE RATE IN 2017

The Chief Executive in Council has adopted the recommendation of the Minimum Wage Commission to increase the statutory minimum wage (SMW) rate and the Legislative Council has approved the subsidiary legislation relating to SMW. The SMW rate will be raised from the prevailing level of HK$32.50 per hour to HK$34.50 per hour with effect from 1 May 2017.

The SMW rates before and after the amendments are summarised in **Table 1**.

For further enquiries about statutory minimum wage, please contact Director and Head of Payroll & HR Outsourcing Department Joseph Hong at josephhong@bdo.com.hk

Table 1

Details	Upcoming amendment to statutory minimum wage rate in 2017	
	Prevailing level of statutory minimum wage before amendment since 1 May 2015	Will come into force from 1 May 2017 (subject to the approval of the Legislative Council)
Minimum hourly wage rate	HK$32.50 per hour	HK$34.50 per hour
Monetary cap on keeping records of hours worked by employees	HK$13,300 per month	HK$14,100 per month

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OFFICIAL LAUNCH OF VALISE – THE BDO EMPLOYEE SELF-SERVICE PLATFORM

At BDO, we are proud to be a **pioneer** in the market – we are now the first accounting firm in Hong Kong to develop an online employee self-service (ESS) platform for clients.

As a leading provider of exceptional client services, we continuously strive to add value to the services we offer. Based on our understanding of the operational needs and administration challenges faced by our business services and outsourcing clients, we are pleased to introduce Valise – **an all-in-one employee self-service platform** that enhances operational efficiency and makes administration more convenient.

In our role as an extension to our clients' operational teams, we are fully aware of the amount of money, resources, time and effort our clients need to invest **every time** they implement a new online platform for a specific purpose. So, how can **medium and large enterprises** better administer their HR operations and **achieve greater efficiency and productivity** without having to invest so much in implementing a range of different systems?

Valise is the ideal solution! It is an online platform that has been designed and developed to cater for the HR administrative needs of medium and large enterprises (those with between 30 and 800 employees). We have selected the most popular and frequently required functions and brought them together on a **single platform**. It is a user-friendly ESS platform that provides a wide range of functionalities from **one platform**, including, among others:

- e-Payslips
- e-Tax Returns
- e-Leave
- e-Expenses
- e-Rental Reimbursements.

With Valise, employees can perform the required functions online using **mobile** devices – **anytime**, **anywhere**. It provides **real-time data and reports** that enable HR professionals and management teams to perform analyses and make decisions in a timely manner.

We introduced Valise to our clients and business partners at a launch event on 9 March 2017. We gave a live demonstration at the event and provided mobile devices so that attendees could experience using Valise for themselves. We are delighted that many of our clients are showing a great deal of interest in learning about Valise and exploring how it can help to make their business administration more convenient and efficient.

For more information, please contact our Valise Service Team at valise.info@bdo.com.hk.

BDO GLOBAL REVENUES RISE TO US$7.6 BILLION, CEMENTING BDO'S LEADERSHIP POSITION IN THE MID-TIER OF THE PROFESSION

BDO is pleased to announce a total combined fee income for the year ended 30 September 2016 of US$7.6 billion / € 6.8 billion*. This represents a year on year growth of 8%, at constant exchange rates.

**including BDO's exclusive Alliances.*

The BDO network's global representation has expanded from 154 to 158 countries and territories. Global headcount has increased by 5.33%, with 67,731 people now working out of 1,401 offices worldwide.

This tangible growth in revenues can be attributed to:

- The network's successful mergers and acquisitions strategy, aided by the continuing consolidation of the accountancy profession
- New firms both expanding the network's global footprint and bolstering performance in existing key territories
- Sustained organic growth across all regions
- The drive to adapt and transform the delivery of exceptional client service through the application of powerful new technologies

REGULATORY HEADWINDS IMPACTING ON CHINESE OFFSHORE INVESTMENT LEVELS IN 2017

On reflection, 2016 was a mixed year for mergers and acquisitions (M&A) globally, given the political and economic uncertainty in many parts of the world and the greater scrutiny of mega cross-border deals. Based on these factors alone, one may have expected a decline in M&A levels.

However, there was certainly no slowdown in Chinese outbound investment in 2016. Having broken many M&A records in the preceding years, China's outbound investment surpassed that of the United States for the first time in 2016. This made China the global leader and another milestone for an expanding global M&A powerhouse.

However, with a sharp decline in both deal volumes and deal values in the first quarter of 2017, uncertainty has been raised on the performance of M&A markets in Greater China in 2017.

Outbound investment in 2017

Regulatory headwinds are dampening expectations for the performance of M&A levels in the Greater China market in 2017. In Q1 2017, we have already seen total Chinese mid-market M&A deal volumes decline, falling 17% compared to the same period in 2016. Compared to Q4 2016, a 54% decrease in mid-market deal volumes and a 24% fall in deal value were reported.

The slowdown partly represents a typical seasonal trend driven by the economic slow-down during the Chinese New Year period. But this slowdown also follows a tougher regulatory approval process on Renminbi currency controls, resulting in a decline in funds being moved offshore by both PRC corporations and individuals. Such regulations, introduced by the Chinese Government in late 2016, have raised concerns by overseas vendors on the ability of Chinese buyers to successfully raise funding to complete acquisitions.

We comment below on three key economic factors that may affect Chinese outbound M&A levels in 2017. While the Chinese government is still considered to be supportive of outbound M&A, restrictions have been implemented to stem the tide of outbound investment due to: i) the sharp decline in China's foreign currency reserves; ii) growing levels of domestic debt; and iii) the depreciation of the Renminbi (RMB) against the global currency benchmark, the US dollar (USD).

China's foreign currency reserves

Total foreign currency reserves held by China over the past 12 months is illustrated in **Figure 1** below. The speed at which these reserves have fallen has been remarkable, with total reserves hovering just above a six-year low of US$3.01 trillion as at 31 March 2017.

Reserves have fallen partly as a result of China's substantial overseas direct investments (with China becoming a net capital exporter in 2015) and partly due to the large movement of funds offshore by PRC companies and individuals, which has been driven by concerns over China's slowing economy and anti-corruption clampdowns. As a result, the authorities have tightened capital controls to restrict currency outflows.

However, with foreign currency reserves still more than twice the size of Japan's (the second largest in the world) and with China continuing to generate large monthly trade surpluses with most of its key trading partners, there may be no immediate concern in this area.

China's growing levels of domestic debt

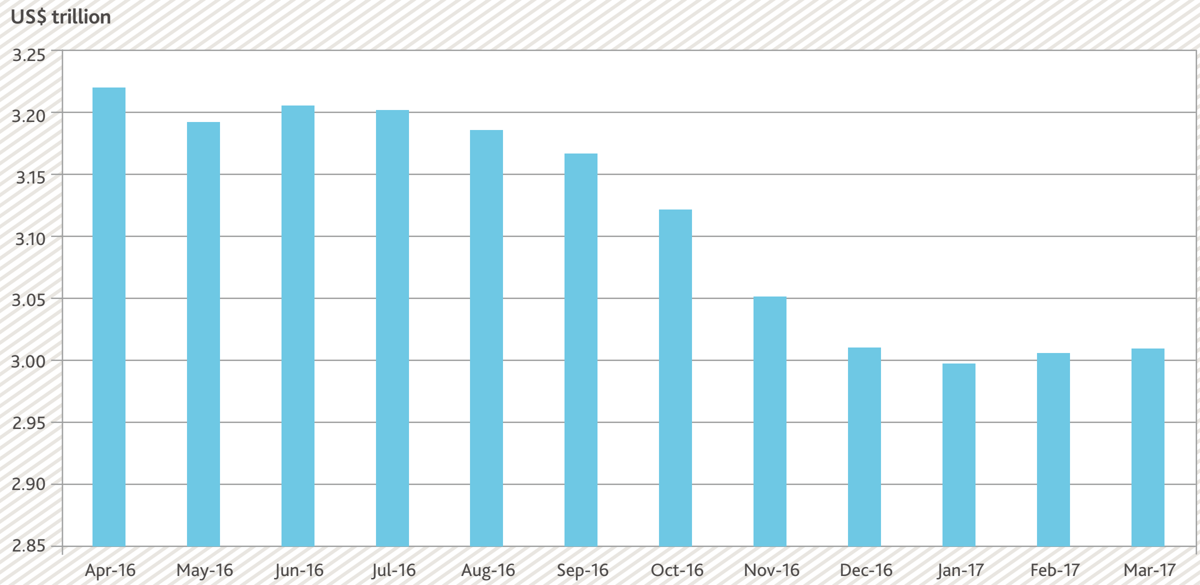
The growing debt levels of private and state-owned enterprises have raised concerns among market observers. With a significant proportion of outbound acquisitions funded by debt in recent years, any tightening of credit cycles will have an impact on the ability of PRC companies to fund acquisitions. Since 2005, there has been a boom in China's overall debt as a percentage of GDP, and since the global financial crisis in 2008, there has been a year-on-year increase, with a cumulative average growth rate in debt levels of 54% over the last five years.

At the end of 2016, China's debt stood at 258% of GDP. Some industry commentators have suggested that China's debt levels may hit 300% of GDP in the coming years if current practices are continued, with mixed views on whether action should be taken now to address the growing debt burden.

China's declining currency

Another factor in the large movement of funds offshore has been the depreciation of the RMB relative to the USD over the past year.

Figure 1: China's foreign currency reserves, April 2016 to March 2017



Many companies have moved funds offshore via acquisitions to hedge against the weaker RMB and slowing domestic growth. There was a strong decline in the RMB currency in the last three quarters of 2016 and a 6% depreciation of the RMB against the USD in the 12-month period to March 2017.

Conclusion

The above economic factors, alongside China's slowing economic growth rate, have raised uncertainty for PRC companies wishing to engage in overseas investment. In addition, there is a general perception that PRC regulatory authorities are clamping down on transactions that are deemed speculative, following multiple investments being made in media and entertainment businesses, sports brands and luxury properties overseas.

However, despite the increased scrutiny of potential deals being completed and the enhanced payment controls implemented, a full clampdown on outbound M&A by the PRC government is not expected. Acquisitions of high-quality assets are still expected to receive favourable support if the deals are being sought for strategic reasons and are in line with the purchaser's core business.

The general market consensus is that the PRC government will continue to support genuine outbound investments, allowing Chinese companies to build their global presence and counter slowing economic growth in China, while seeking to minimise investments that are more speculative. It may be difficult to obtain the relevant approvals for larger deals that are not central to a company's industry or sector and market commentators have suggested that there is currently a ban on deals of more than US$1 billion that fall outside an investor's core business. This seems to be in line with recent market activity, with a decline in mega-deals announced in the first quarter of 2017.

As a result of the regulatory measures in place and the temporary decline in larger transactions, we may continue to see good performance in the mid-market, where smaller deal sizes may not attract the attention of the authorities in China and abroad, and where there is typically lower debt funding, and where market or industry transformation deals are less likely.

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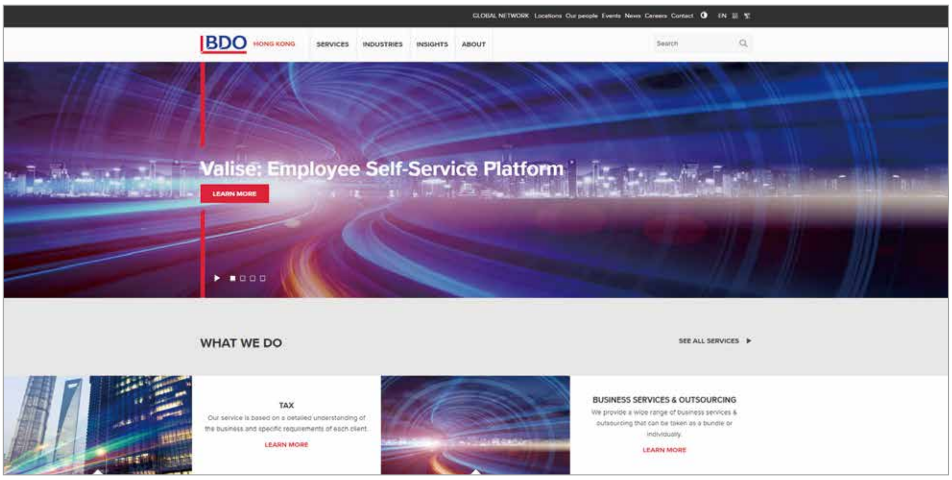

BDO IS RANKED TOP 5 FINANCIAL ADVISER

BDO Corporate Finance continues to build on its market position as one of the leading financial M&A advisers globally. With 840 deals successfully completed in 2016, BDO has consolidated its position as the fifth leading mid-market adviser on the Thomson Reuters 2016 league tables.

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BDO NEW APPOINTMENT

BEVIS CHAN
Director
Assurance Services

Bevis Chan was promoted as Assurance Director effective from 1 March 2017.

Bevis has extensive experience in providing audit and business advisory services to listed and private companies operating in Hong Kong, Mainland China and the US over a wide variety of industries including trading and manufacturing, natural resources, IT software and financial and investment advisory services. Bevis is also experienced in various transaction support assignments including mergers and acquisitions, as well as financial due diligence.

Bevis is a Hong Kong Certified Public Accountant and a Fellow Member of the Association of Chartered Certified Accountants.

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