CHINA GOING OUT SUPPORTING YOUR CEO'S GLOBAL AMBITION

How well is Hong Kong serving China's CEO's as they seek to internationalise their businesses?

Hong Kong's edge, in terms of global position, ease of doing business, liquidity, infrastructure, technology and a regulated market, makes it ideally positioned for corporates wanting to take advantage of growth opportunities like the Belt & Road and the Greater Bay Area initiatives. Opening the recent Thomson Reuters and Corporate Treasurer roundtable discussion, Sanjeev Chatrath highlighted key factors that create natural advantages within one of the world's greatest financial centres, in relation to treasuries and CFOs wanting to relocate or strengthen their presence in Hong Kong.

WHY HONG KONG?

Sanjeev Chatrath: If you're a Chinese institution going global or an overseas investors looking to move to China, the Hong Kong Special Administrative Region (HKSAR) has much to offer. It has a unique position as a gateway to China, as well as being part of China's one country, two systems. Its financial markets are well developed and very liquid. In terms of talent, it has a robust entrepreneurial spirit and a strong emphasis on financial education. Hong Kong's infrastructure has

IN ATTENDANCE (L-R): PARTICIPANTS:

Sanjeev Chatrath
Managing Director Regional Head – Asia, Financial & Risk Thomson Reuters

Catherine Szeto
Treasury Director, Vinda International Holdings

Enoch Fung
Head (Market Development), HKMA

Jason Chow
Chief Financial Officer, Lee's Pharmaceutical Holdings

Richard Huang
Senior Treasurer, Deputy, CFO, Kingdee International Software Group Company

Leo Li
Head of Treasury Dept, Sinochem

MODERATOR: Daniel Flatt, *Editorial Director,* CorporateTreasurer

stood the test of time and its resilience is amazing. In spite of recently having had some of the strongest typhoons in years, there's been no impact on financial infrastructure.

These are just some of the things I discuss with CFO's looking to locate a treasury centre and who need to operate in a place with a rule of law governing business.

It would be naive to say Hong Kong is the only location with these attributes. Singapore, London and New York as well as other centres in Asia all have their own unique offerings. Corporates today really have a breadth of choice and they need to choose what is most strategic to them, given their future growth, ambition and existing business footprint.

Q Is Hong Kong a good venue to develop a financial hub for large international corporates?

Enoch Fung: As Sanjeev said the core consideration has always been the fundamental business case, the ease of doing business, infrastructure and technology.

We're seeing a lot of multinational corporates develop their businesses in Asia through the Hong Kong platform. Many initially thought of Asia as their production hub, now increasingly, it's their end user market. Of the 8000 companies set up in Hong Kong, around half use it as their regional headquarters.

Over the past 10 years, an increasing number of Mainland Chinese corporates have ventured into overseas markets, competing with leading global players. If you look at Fortune Global 500 companies, more than 100 are Mainland Chinese corporates. Many use Hong Kong as their international headquarters and as a hub for overseas business outside of China. As their presence grows, their operations have grown in scale and complexity and so you start to see pressure on these corporate to manage finances, treasury flows, cash flows, liquidity and challenges on the regulatory side.

Jason Chow: Being listed and having a hub in Hong Kong gives us access to investors and we can take advantage of the unique position of the local equity market. We have access to financing and banks, and interest rates are still low compared to that in China. We still need to move some finances onshore to China especially since we have our core manufacturing functions there (then we need support from local banks), but in terms of costings and ecosystem, Hong Kong has better terms and it's a better choice than onshore.

"BEING LISTED AND HAVING A HUB IN HONG KONG GIVES US ACCESS TO INVESTORS'"
Jason Chow, Chief Financial Officer, Lee's Pharmaceutical Holdings Ltd

Catherine Szeto: Even though we are the Number 1 tissue seller in China, we have a centralised treasury function here in Hong Kong servicing Mainland China, Malaysia and Taiwan. We have recent acquisitions in Malaysia, and we have products in Malaysia and Taiwan.

Richard Huang: Our core business is financial software and our corporation listed on the Hong Kong stock market in 2001. Our primary market is China where more than 6 million enterprises use Kingdee services and products but we also have companies in Taiwan and Hong Kong.

Leo Li: Hong Kong a very strategic location for Sinochem and an important part of our global strategy. Sinochem set up a treasury centre in Hong Kong in 1989. Chinese companies can easily get low cost financing in Hong Kong. If new Mainland Chinese companies want to get listed, Hong Kong is better for them, as it's an Asian market. Hong Kong also accepts listings from entrepreneurial companies with limited operational

history. For instance, if a company wants to get listed in the US, it's very difficult for them to get a high evaluation because fewer investors understand the Chinese story or newness. We used to do road shows in London and the US and we needed lots of discussions and presentations to explain our story.

Sanjeev Chatrath: Thomson Reuters works alongside exchanges on both sides to increase education and understanding among global investors. Hopefully, most people now know about Sinochem but there are still a lot of faster growing and less familiar names, so we're working with corporations in China to help bring their story to global investors.

How do you use Hong Kong in terms of cash and liquidity management?

Leo Li: We integrate and manage our internal cash from other subsidiaries overseas such as in the US and we issue bonds to satisfy cash demands. If there is capital (cash) in our subsidiaries, we don't need to borrow money from markets, so this can lower our costs. This type of cash pooling can satisfy short-term small amount capital demand from our subsidiaries. If the cashbook cannot satisfy our capital demand, the Sinochem group can borrow money internationally from capital markets issue bonds.

Catherine Szeto: We do most of our financing in China because most of our factories and manufacturing are there. About 70 per cent of our assets are in RMB, so we do financing in RMB to minimise exchange losses. We have improved some way since 2015 when the RMB depreciated suddenly. We've changed our strategy on financing; before 2015, most of our financing arrangements were in Hong Kong in CNY or US dollars, but we need hedging as well because the RMB could suddenly appreciate. We have a strategy, a kind of natural hedge, where we finance in RMB, which really turned around our exchange loss during 2015-2016.

Richard Huang: In order to pursue a global strategy of investing abroad, we work with reputable banks, Credit Suisse, HSBC, and Hang Seng Bank. The main reason why public companies like us, Huawei and Tencent choose these banks is their historical performance, reliability and reputation. These banks work in both Mainland China and Hong Kong. They understand Mainland policies as well as financials and licences in Hong Kong, and can operate between Shenzhen and Hong Kong with cross border capital flows, making it easier to get loans and investment in Hong Kong.

What recent developments have made it easier for a CFO/ Treasurer to operate in Hong Kong?

Enoch Fung: The Hong Kong Monetary Authority (HKMA) sees a healthy ecosystem with a deep capital market as being at the very core of financial market stability. It's in our interest to prepare a solid and efficient banking system with a regulatory framework that supports it. Corporate Treasurers are the ultimate users of many

financial services in Hong Kong, so we're keen to engage with them and learn how they use our financial platform. It's also important for us to maintain our exchange rate and monetary stability.

Sanjeev Chatrath: Thomson Reuters works with thousands of corporates and CFOs globally and there are a few things central to conversations when they're thinking about where to locate a treasury centre. People are aware of risks in managing businesses in far-flung geographies. Our recent survey of 1000 Corporate Treasurers found the key considerations when choosing a treasury centre were proximity to core business and market liquidity. Companies think about how they can manage risks associated with their group. You've got to have the right technology, infrastructure and people who understand those geographies to manage risks contained within them.

Today, there's also a shift away from growth at all costs, to sustainable growth. The role of treasurer, and of finance, is at the very core of sustainable growth. In our interaction with CFOs and CT, we see a lot of corporations thinking about how to transform their cash processes and become more efficient. On the payment side, with increasing cyber security risk, you want the right infrastructure when deciding on the location of a core function treasury. Where can you raise or invest funds to get the best returns? Where can you do intercompany loans efficiently, in a compliant manner? You need to locate your treasury centre where there is solid technology and an ecosystem of partners for efficient capital management process.

Key practices treasuries and CFOs need to exam when considering a new location:

- Focus on developing infrastructure within your treasury that is agile and bank agnostic.
- Focus on enterprise risk management tools to take a holistic view to risk.
- Focus on supply chain risk management so you're not putting your reputation or financial assets at risk.
- Focus on more machine-based infrastructure to reduce human risk, errors and mistakes.

Hong Kong is trying to lead the adoption of Know Your Client (KYC) verification. I know it's a big pain point from a corporate point of view, making it harder to move your business, and it can be paper intensive and challenging but I'm seeing growing adoption of KYC.

ACCESS & INFRASTRUCTURE

How easy is it to access financial institutions and other professional services?

Jason Chow: We licence products from Europe and Japan and we bring products and registrations from China, as well as focusing on research and development. So Hong Kong has a unique position in the equity market where we can easily reach different investors from all over the world. If we were only a Mainland China company, our investor base would be limited.

Leo Li: US and European banks do more for investment banks e.g. mergers and acquisitions (M&A's) and listings but in terms of the borrowings, no. They are afraid because their compliance departments don't understand the story. They think your leverage is a little higher than comparable companies in other regions. But it's very easy for Chinese banks to understand, and maybe the compliance process is shorter. We issued Sino bonds in 2010, so our base is one-third from the US and two-thirds from the Pacific.

Richard Huang: As you may know, we have issued five years debentures through Credit Suisse. Hong Kong has many opportunities for M&A's with excellent companies. We hope to improve our supply chain, so we are looking at buying some and we are interested in working with intermediaries.

BEYOND BELT & ROAD

What opportunities does the Belt & Road represent?

Sanjeev Chatrath: This initiative is a bold vision, unparalleled in scale and complexity. Another initiative where I'm seeing a growing focus is the Greater Bay Area strategy, which is very attractive to companies in this part of the world. Both projects are creating a lot of interest among corporates and treasuries, about how they can align and drive growth in their business.

Enoch Fung: The Belt & Road initiative is important not just for Mainland China but also for Asia and globally. One key challenge for investing or financing projects in the region is risk. There is definitely a big gap between economic development and infrastructure.

According to the Asian Development Bank, Asia has a US $1.7 trillion infrastructure-financing gap. The public sector can't fill this gap. When you draw in private sector capital, you need different criteria to assess a project's commercial viability, risk, returns, legal and supervisory elements. Emerging market economies can be a new experience for some institutional investors and requires a lot of arbitration. It's pretty obvious Hong Kong can play a role in financing but it can't just be money transfers, it has to be all these peripheral services to insure the transaction is robust, fair and clear. Last year, we set up our Infrastructure Financing Facilitation Office to position Hong Kong as a key infrastructure and financing hub, to help bridge the need for collaboration in the form of public-private partnerships (PPP) in infrastructure, as well as gaps in culture, business habits or practices.

What could Hong Kong do better to support the financial functions of an international company?

Enoch Fung: We're keen to help develop treasury functions. As we talk to corporates, the key attraction in Hong Kong is obviously the platform. Tax is an element, but the major factors are financial services and the capital market. HKMA is collaborating with more than 80 partners including investors, banks, insurance companies and corporates with expertise in infrastructure, financiers, legal professionals and accounting, to discuss how we can use Hong Kong better. We've also participating in government initiatives. Hopefully, this proactive approach will facilitate investment flows in Hong Kong.

"HONG KONG A VERY STRATEGIC LOCATION AND AN IMPORTANT PART OF OUR GLOBAL STRATEGY"
Leo Li, Head of Treasury Department, Sinochem

Leo Li: For Hong Kong to improve its ecosystem, it must attract more commodity related businesses. If new companies want to establish a local commodity trading platform, they need to think Hong Kong is better than other places.

Richard Huang: Our company operates in Shenzhen and Mainland China where government incentives and good policies benefit us as a tech company and we've had a lot of support.

Jason Chow: Hong Kong is uniquely placed to have companies that focus on R&D but Mainland China has supportive polices for R&D, so you can have more tax deductions, but Hong Kong doesn't have many supportive policies. We know there are tax concessions but our impression is this concessional rate only


Catherine Szeto, Vinda


Leo Li, Sinochem


Enoch Fung, HKMA

Richard Huang, Kingdee

Jason Chow, Lee's Pharmaceutical

Sanjeev Chatrath, Thomson Reuters

applies to specific businesses i.e. asset management companies.

Enoch Fung: Corporates aren't really using Hong Kong as much as we'd like and we wondered why. We found tax was an issue. The HKMA took this on board and created a scheme that is helpful for corporate to set up their treasury functions, and at the same time, maintains a robust and simple low tax regime. The new scheme allows, with qualifying conditions, for a 50 per cent discount on headline profits rates, so the effective tax rate will be around 8.25 percent by 2121.

This is really the scheme's first effective tax year and there are still issues we need to address. Overall, our regime is now simple, clean, transparent and straightforward. We hope it benefits everybody, but at this early stage, it's worth hiring or seeking advice from more than one tax adviser, as it's still a learning process even for tax advisers.

Since the global tax regime is constantly evolving, the HKMA has to align with international standards. Whether you're in Hong Kong or elsewhere, you still need to constantly review structures and treatments of certain types of transactions that would be aligned with international standards on the bank regulatory side, and on the tax side, and that's why a CEO will always require a competent CFO familiar with global developments to help navigate these challenges.

Can Hong Kong be home for fintech?

Richard Huang: You need to have some specific conditions to help this community grow. As a high tech or R&D company, you keep burning money to develop new products and it takes three to five years before you get any benefits. We set up a company in Taiwan because it has supportive policies. You can get designated as a biotech company, allowing you to fast track listing on the Taiwan stock exchange. Instead of waiting three years, you can do it in half the time. To get this designation, you need to hire six local people i.e. those with masters degrees in biotech, so it's also helping graduates find a job. In Hong Kong, it's difficult for these students to find work as there aren't many local R&D jobs. It's not just about getting companies to list or raise funds; you also need to help the local economy. That said, Hong Kong is a good location because you can easily get healthcare funds but it could do more.

Catherine Szeto: I feel Hong Kong needs to consider doing more to help market listing for larger high tech companies, e.g. Alibaba. Hong Kong was not suitable for them, so they choose the US.

Leo Li: Previously, a lot of companies, especially high tech ones, could only be listed in the US because they didn't have enough profits and their operational history may have been less than three years. But the Hong Kong Exchange has done a lot of work and maybe next year there will be a new bond to attract more entrepreneurial companies to list here with maybe one year's operational history and no profits.