

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Minutes of the **40th Annual General Meeting** held on Friday, 14 December 2012 in the Auditorium, 27th floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong at 5:30 p.m.

- Chairman : Mr. Keith POGSON, FCPA (President)
- Council Members Present : Ms. Susanna CHIU, FCPA (Vice President)
Mr. Clement CHAN, FCPA (Vice President)
Mr. TSAI Wing Chung, Philip, FCPA (Immediate Past President)
Ms. Mabel M.B. CHAN, CPA
Mr. Raymond CHENG, FCPA
Ms. CHEUNG Wing Han, Ivy, FCPA
Mr. Ambrose CHEUNG Wing Sum (Appointed lay member)
Prof. CHO LUNG Pui Lan, Stella, FCPA
Ms. Ada CHUNG, FCPA (Rep. of the Financial Secretary)
Mr. Andrew FUNG (Appointed lay member)
Mr. Dennis HO Chiu Ping, FCPA
Mr. Ronald KUNG, FCPA
Mr. LAM Chi Yuen, Nelson, FCPA
Mr. Frankie LAM, FCPA (Rep. of the Director of Accounting Services)
Mr. Stephen LAW, CPA
Mr. Doug OXLEY, FCPA
Mr. Gary POON Tsun Wah, CPA
Ms. Edith SHIH (Appointed lay member)
Mr. Kim Man WONG, CPA (Appointed member)
- Apologies : Ms. Melissa BROWN (Appointed lay member)
Mr. Jack S.L. CHOW, FCPA
- Chief Executive & Registrar : Mr. DING Wai Chuen, Raphael, FCPA
- Other members present : 129

There being a quorum, the Chairman called the meeting to order.

1. **Notice of the Meeting**

In the interest of time, the Chairman proposed, Mr. Albert Au seconded and the majority of members present agreed by a show of hands that the Notice of the Meeting be taken as read.

Messrs. Horace Ma and Ronald Kung demanded a poll be taken under the Professional Accountants by-law 18(3)(a) for the reading out of the Notice of the Meeting and passed to the Chairman a requisition for this purpose signed by 14 certified public accountants.

The Institute's legal advisor, Mr. F.K. Au, advised that the requisition should be very specific on which resolution a poll was demanded. Mr. Horace Ma confirmed that a poll was demanded for all resolutions putting to the meeting.

Mr. Vincent Chin, legal advisor of Mr. Horace Ma, indicated that he wished to speak. After consulting the Institute's legal advisor, the Chairman informed Mr. Chin that as the Institute is a member organisation and he was seated next to Mr. Horace Ma, he could always convey his views to Mr. Ma who could speak out at the meeting in the capacity as a member.

The Chairman informed the participants that since this Annual General Meeting ("AGM") was conducted in English, if members would like to speak in Cantonese, they should arrange their own interpreter for the benefit of those who did not understand Cantonese. If members should require assistance in this respect, the Institute would help arrange for a staff member to provide consecutive interpretation into English.

Mr. Horace Ma questioned why English should be used for the meeting. He asked Mr. F.K. Au to clarify whether the meeting was required to be conducted in English under the Professional Accountants Ordinance ("PAO") or Professional Accountants By-laws.

Mr. F.K. Au advised that no provisions in the PAO prevented members from speaking in their chosen language. The Chairman just stated that if a member chose to speak in Cantonese and that some other members might not be able to understand Cantonese, an Institute staff would provide interpretation and it would make the proceedings longer.

Mr. Horace Ma demanded a poll on the language medium to be used at the meeting.

The Chairman advised Mr. Ma that a proposed resolution had to be submitted 28 days in advance for a poll. It would be unfair to bring such matter at this point of time without giving appropriate notice to members on the topic under discussions. The Chairman suggested providing interpretation service so that all members would be able to understand the matters under discussions.

The Chairman read the Notice of the Meeting.

2. **President's address**

The President updated members on the Institute's developments during the year as follows:

- The membership gender distribution was almost at parity while 56% of the QP students were female. The membership number increased by 5% from 32,168 to 33,901 and the number of registered students rose by 17% from 12,590 to 15,133.

- The Institute played a facilitation role in hosting a forum for candidates running for the HKSAR Chief Executive and a forum for the candidates running for a seat of the Accountancy Functional Constituency at the Legislative Council.
- The rising popularity of sustainability and integrated and ESG reporting was a major topic of discussion at the Institute's annual conference. The Best Corporate Governance Disclosure Awards rewarded companies, who were early adopters of the new Corporate Governance Code, also had a heavy emphasis on integrated and ESG reporting.
- The growing trend of independent regulation had picked up more momentum and the Institute had worked closely with the Financial Reporting Council, other government departments, and international regulators to come up with a solution that best suits Hong Kong.
- The passage of clause 399 of the amended Companies Ordinance, one of the seminal events of the profession this year, showed the strength of the profession when it unites and works as one.
- The Institute had furthered its efforts to broaden the emphasis of ethics on its membership. The Institute continued to monitor proposed changes in the ethics code by the International Ethics Standards Board for Accountants. The Institute also published a third book, May Moon's Book of Choices, to teach children about ethics and money morals, as part of its "Rich Kid, Poor Kid" programme.
- As the Institute is finalising on the 6th Long Range Plan ("6th LRP"), the future of the profession would become clearer and more defined. The plan would serve as a blueprint on how the profession will change and deal with change.

Before closing, the President accorded a vote of thanks to the two vice presidents and fellow Council members for their support and commitment. The President also thanked the Chief Executive and his management team for their professionalism and dedication.

3. **To receive the annual report and approve the statement of accounts**

The Chairman invited Mr. Jimmy Yip, the auditor of the Institute, to read the auditor's report. He also invited members' comments on the statement of accounts for the year ended 30 June 2012.

Mr. So Kai Kuen requested the Institute to give explanations on:

- why the auditor's remuneration for 2011/12 financial year soared to \$442,000.
- why the outgoing Chief Executive, Ms. Winnie Cheung, received \$4 million per year and a bonus for the past two years when the Institute suffered from big deficits.
- why the Institute paid \$300,000 rental to the United International College ("UIC") for its set up there, given the land in Mainland was cheap. The Institute should also advise the size of the Institute's set up at UIC.

The Chairman invited and Mr. Raphael Ding, Chief Executive & Registrar of the Institute, responded:

- the audit fee for the last financial year included \$100,000 for the auditors to attend and participate in the Extraordinary General Meeting held in December 2011 as scrutineers and supervised the process.
- the Institute set up a resources centre at UIC to promote and develop the Institute's Qualification Programme ("QP") in China. The payment to UIC covered the operating costs of the resources centre.
- the then Chief Executive's performance bonus was decided by the Council after thorough consideration of her performance.

The Chairman advised that the payment to Ms. Winnie Cheung comprised her performance of the year and the long-service remuneration under her employment contract. For the remuneration terms and other judgments, the Institute had an Audit Committee to conduct reviews. There was also in place a process whereby once every three years, the Institute would engage external consultants to benchmark the salary against other organisations of a similar nature.

Mr. Pang Hon Chung raised his questions / views as follows:

- if part of Ms. Winnie Cheung's pay was related to past services, did that mean that there was insufficient provisions in past years?
- what was the annual pay per head of the Institute?
- why the Institute had not started its staff localisation.

The Chairman advised that provisions had been made for Ms. Cheung's pay. Mr. Raphael Ding supplemented that the average pay per head of the Institute staff was \$45,000 monthly and remuneration comparison was made with other similar professional bodies. The Institute's level of remuneration was basically in line with these other bodies if not on the lower side. The Institute had difficulties in recruiting the right talents either locally or internationally and, as such, some of the vacancies were not filled for over a year.

Messrs. Horace Ma and Ronald Kung said that they had a meeting with Mr. Raphael Ding before this AGM proposing solutions to the Member Resolutions. If the Institute did not accede to their proposed solutions, they would have to vote against all resolutions raised at this AGM.

Mr. Chow Kwong Fai said that he was amazed that some incumbent Council members were sitting amongst the audience instead of on the panel taking joint and several responsibilities in reporting to the members at this AGM. He said for the sake of good order and expediency, Council members should sit where they should be seated unless they wanted to divorce themselves from the report which had been sent to members.

Mr. So Kai Kuen remarked that the remuneration to QP workshop facilitators remained unchanged at \$2,500 per session and had not been reviewed in the last 12 years. He commented that this was a kind of exploitation.

The Chairman advised the meeting that he had received a written request under the Professional Accountants by-law 18(3)(a) signed by 14 certified public accountants present at the meeting requesting that a poll should be taken on the resolutions proposed or seconded at the AGM.

Since this was a valid request under Professional Accountants by-law 18(3)(b), the Chairman proposed and Mr. Selwyn Mar seconded that a poll should be taken on the resolution to approve the statement of accounts of the Institute ended 30 June 2012.

The Chairman proposed, under Professional Accountants by-law 18(6), and no member objected to the appointment of 11 members from Mazars CPA Limited, the Institute's auditor, who were present at the meeting and agreed to serve as scrutineers in their personal capacity.

Voting on the resolution took place and the voting papers were duly counted by the scrutineers.

The Chairman invited Mr. Henry Lai, the Chief Scrutineer, to read out the voting results.

Mr. Lai reported that a total of 313 votes were cast and the results of the poll were as follows:

	<u>In person</u>	<u>By proxy</u>	<u>Sub-total</u>
For the Resolution :	94	0	94
Against the Resolution :	15	200	215
Abstained :	4	0	4
Total:	113	200	313

The Chairman declared that the Resolution was defeated by a majority of members voting in person or by proxy at the meeting.

4. **To appoint an auditor of the Institute under Professional Accountants By-law 42(1)**

The Chairman proposed and Mr. Wilson Fung seconded that a poll should be taken on the resolution to appoint Mazars CPA Limited as the Institute's auditor until the next Annual General Meeting.

Voting on the resolution took place and the voting papers were duly counted by the scrutineers.

Mr. Henry Lai was invited to read out the report on behalf of the scrutineers.

Mr. Lai reported that a total of 305 votes were cast and the results of the poll were as follows:

	<u>In person</u>	<u>By proxy</u>	<u>Sub-total</u>
For the Resolution :	89	0	89
Against the Resolution :	16	200	216
Abstained :	0	0	0
Total:	105	200	305

The Chairman declared that the Resolution was defeated by a majority of members voting in person or by proxy at the meeting.

5. **To elect seven Council Members in accordance with sections 12 and 13 of the Professional Accountants Ordinance**

The Chairman informed the meeting that for the seven vacancies this year, the Registrar had received a total number of valid votes from 4,597 members of which 1,887 members returned their completed ballot forms and 2,710 members cast their votes electronically.

The Chairman declared that pursuant to Professional Accountants by-law 3(5), the following seven members by order of their surname were elected to the Council in accordance with sections 12 and 13(1)(b) of the Professional Accountants Ordinance:

Certified public accountants in full time practice as certified public accountants (practising)

Chan Kam Wing, Clement
Cheng Chung Ching, Raymond
Cheung Wing Han, Ivy
Ho Chiu Ping, Dennis and
Eric Tong

Certified public accountants otherwise than in full time practice as certified public accountants (practising)

Lung Pui Lan, Stella and
Douglas Charles Oxley

The Chairman informed the meeting of the composition of the new Council for the ensuing year. In addition to the 14 elected members including himself and two ex-officio members, four lay persons had been appointed to the Council by the Chief Executive of the HKSAR ("CE") and up to two co-opted Council members would be selected by the new Council.

The Chairman advised that Ms. Catherine K.C. Leung retired from the Council on 30 November 2012 after having served six consecutive years on the Council as a lay member and thanked her for the dedicated service. The CE appointed Ms. Melissa Brown to succeed Ms. Leung as an appointed lay member for a term of two years from 1 December 2012 to 30 November 2014. In addition, Mr. Ambrose Cheung had served the Council for six years and would retire from the Council after this Annual General Meeting and the

subsequent special Council meeting. Mr. Tam Wing-pong had been appointed by the CE to succeed Mr. Cheung in the Council for a term of two years effective from 15 December 2012 until 30 November 2014.

The Chairman thanked the incumbent lay members: Mr. Andrew Fung and Ms. Edith Shih for their continuous service and contributions.

The Chairman also extended a vote of thanks to the five retiring Council members, Mr. Tsai Wing Chung, Philip, Immediate Past President; Mr. Chow Siu Lui, Jack, elected Council member; Mr. Poon Tsun Wah, Gary, co-opted Council member, Mr. Ambrose Cheung and Ms. Catherine K.C Leung, appointed lay members, for their contributions and support to the work of the Council over the years they served on the Council.

6. **Any other ordinary business**

The Chairman informed the meeting that there was no other ordinary business to be dealt with at this Annual General Meeting. However, the Registrar had received the following three proposed resolutions unrelated to the ordinary business for the meeting:

1. to suspend the fee adjustments for 2013
2. to arrange a forum to explain the proposed fee adjustment for 2013
3. to convene a general meeting for members to vote on the fee adjustments for 2013.

The Chairman advised that these three proposed resolutions would not be put to vote at the meeting while Mr. Raphael Ding, the Chief Executive of the Institute, would be invited to further explain to members the rationale behind the fee adjustments for 2013.

Mr. Raphael Ding informed the meeting that:

- There was an increase of annual membership fee, practising certificate fee and non-PC holder partner fee by \$100, \$250 and \$500 respectively. Increases in QP workshops and examination fees were also proposed. The total increases were not substantial and would cover partly the expected deficit for 2012/13. The rest of the anticipated deficit would have to come from cost savings including those arising from possible restructuring of the Institute.
- There had not been any fee increase since 2007 while at the same time the compound increase in Consumer Price Index was about 20%. Other major accounting bodies in Hong Kong had increased their fees and some were as high as 18% during the same period.
- The Institute's membership fee was amongst the lowest of the major accounting bodies while the Institute had to perform additional statutory functions including standards setting, licensing, regulation and practice reviews. The costs for obtaining the accounting qualification with the Institute were also the lowest amongst major accounting bodies.

- In arriving at the final budget for the year ending 30 June 2013 which was expected to be another deficit, Council and himself cut the original budgeted deficit by \$39 million. Short-term cost saving measures such as freezing headcounts, natural attrition and reduction in discretionary expenditure had been introduced.
- In short, fee adjustments were considered vital to prevent the Institute from falling into possible structural budget deficits in the future. With fee increases in 2013 alone, the recurring budget deficit situation would be stabilised while the Institute could take other measures to address the imbalances.
- The management was reviewing the Institute's organisation and cost structure in conjunction with the development of the 6th LRP to get the right mix of staff and resources to implement the Plan. The measures would tie in with the need of the 6th LRP to avoid affecting the quality of services.
- Back in the 2008/09 financial year, the then Council had debated not on deficits but surpluses accumulated over years. It was then decided to increase the activity level which would in the long term benefit Institute members and a rebate of \$380 was also made to each member in 2009/10. The total amount paid back to members was \$11 million.
- With an intention to run down the accumulated surpluses, Council proposed deficit budgets in the subsequent years and allocated substantial resources to value enhancement projects. The names of the 21 Council members who had approved the 2011/12 deficit budget were also disclosed at the meeting. For these years, the actual results turned out to be surpluses until the financial year ended 30 June 2012.
- The value enhancement projects approved by Council included upgrading QP resources for students and promoting QP in China, both of which were started in 2010 with a view to maintaining the quality of new members and strengthening the Institute's long-term position in China and internationally.
- QP in Hong Kong and China together accounted for \$10.8 million of the increase in the Institute's expenses and some \$8 million deficit between the year ended 30 June 2011 and the year ended 30 June 2012. After laying down the initial platform for QP in China and completing the QP enhancement, the Institute would critically review its long-term strategies, implementation and action plans on promoting QP and the brand of the Institute in China and internationally when developing the Institute's 6th LRP.
- The Institute had a cash balance of \$161 million at 30 June 2012 versus a total current liability of \$92 million. The cash balance was enough to cover approximately 8 months of operating costs based on existing projections. It was expected that the cash balance would be gradually depleted over time due to the incurrence of further deficits or decrease in surpluses if the Institute should continue with the same level of activities and fees.

- Despite the escalating costs over the years, Council had worked hard not to transfer the increased operating costs to members. However, maintaining the same fee levels without adjusting for inflation was not sustainable in the long term.
- To conclude, the proposed fee adjustments for 2013 were prudent and necessary in order to prevent the Institute from falling into a structural deficit situation. The fee increases would offset some deficits, whilst the management would embark on a series of cost-cutting exercises in the short term and conduct an organisational review to fully align its resources with the Institute's 6th LRP in the long term.

The Chairman opened the session to the floor.

Mr. Pang Hon Chung said that from the information provided by Mr. Raphael Ding, the running expenses of the Institute were \$20 million per month. Unlike the government which operated on a zero base budget, the Institute should not get money from members if it had spent more. In this connection, the first thing the Institute should do was to cut costs and he thought that the current actions were not enough.

Mr. Au Siu Cheung, Albert informed the meeting that he represented the Institute at the Hong Kong Coalition of Professional Services which comprises 11 professions in Hong Kong. The Institute was often envied by the Coalition counterparts on having its own premises which was a wise investment decision made by past presidents and Council members. The rental cost was a big chunk of the overheads for doing business in Hong Kong and the Institute had been taken away of this burden. He thought that members had to be realistic as the costs of doing business in Hong Kong were escalating.

Mr. Cheng Chung Ching, Raymond thought that it was unwise for the Chairman to invalidate unilaterally the resolutions proposed by some 50 members because these were very reasonable resolutions put forward by members. Mr. Cheng said that what the Chairman did might or might not be legally correct but what he did have given a bad impression to the general membership on the governance of the Council and the Institute.

Mr. Cheng pointed out that although the Chief Executive had listed out the Council members who had approved the deficit budget, but it should not have meant that those approving the deficit budget had agreed on the fee increases. He wished to clarify this so that members would not have a wrong impression that both he and Mr. Ronald Kung who had approved the deficit budget were acting as hypocrites.

Mr. Cheng wanted to demand again for the new president to be elected later to take good corporate governance to ensure that s/he would be doing things generally acceptable by the membership. The fact that Mr. Horace Ma had obtained several hundreds of proxies from the membership demonstrated that these members were not happy with the way the Chairman was dealing with these three resolutions and they wished Mr. Ma to voice out their concerns on their behalf.

Ms. Yip Kai Wai, Kitty found the fee increment was of a little bit concern to her. She had read the balance sheet and profit and loss statement of the Institute. She understood what the Chief Executive was talking about but still could not understand why there was a fee increase.

Mr. Lau Ka Wing said that he wanted to vote on the fee increase.

Mr. Kung Yiu Fai, Ronald advised that being a Council member for seven years, he had done a lot to improve the governance of the Council. Unfortunately, the Chairman's decision gave all members a bad impression on the Council or the Institute.

Mr. Kung advised that they had obtained a legal opinion on the three proposed resolutions at their own cost and distributed the legal opinion among members. The resolutions proposed were with legal backing and were in accordance with the PAO. However, the Chairman had used his own discretion to disallow the voting of the resolutions. The members concerned were just asking for the rule of law which is the core value of Hong Kong. They just wanted the Council and the Institute to act in accordance with the PAO.

Mr. Kung said that they had done a lot in the last two weeks. They were not talking about the tiny \$100 or \$200 increment but about the governance of the Council and the Institute. He informed the meeting that Mr. Horace Ma had written to Professor K.C. Chan of the Financial Services & Treasury Bureau to lodge a formal complaint.

Mr. Kung hoped the next president would follow the PAO strictly and wanted a better governance of the Council and the Institute.

The Chairman responded that he had acted upon the advice of the legal counsel. He had also sought and received support from the majority of Council members who also understood the legal advice given. It was with sadness that he had received these comments at this meeting.

Mr. Ma Chun Fung, Horace asked what legal advice had been obtained by the Institute which had not been circulated while he had distributed the legal advice obtained to fellow members. The Chairman's unilateral and unscrupulous act of not putting forward his proposed resolutions to vote at this meeting was certainly ultra vires of his powers.

Mr. Ma remarked that the resolutions he proposed had been properly served to all members and he wondered why these resolutions had been removed single-handedly by the President who was not yet the Chairman of this AGM at his communication on 7 December 2012 but had in advance acted ultra vires as the Chairman of the AGM.

Mr. Ma said that they were so sad to see that the Council and, in fact, the Chairman had exercised this power without solid legal backings. While he might be advised to go for a judicial review but he did not think that this was a proper way as the Institute had already spent much money on legal matters. However, he believed that the Chairman had put the Institute to disgrace.

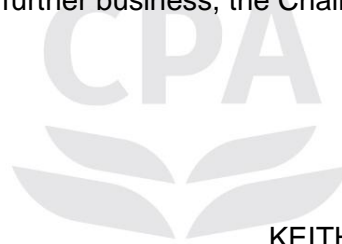
Mr. Wong Wing Hung raised a question about using the Asia World Expo as the QP examination centre. He heard some registered students' comments that they did not like the Asia World Expo venue as it was too far away and more expensive. He thought that members and registered students would not wish to have fee adjustments because of using the Asia World Expo, a venue that they did not like.

The Chief Executive thanked Mr. Wong for his comments as the Institute was critically reviewing its spending. The use of the Asia World Expo was a response to complaints in the past. If there was an alternative, the Institute would certainly go for a change.

Due to time constraint, the Chairman advised that the session had to be concluded. He reminded members to attend the Members Forum on Fee Adjustments for 2013 to be held at 6 p.m. on Monday, 17 December 2012 to further discuss this matter.

Ms. Susanna Chiu proposed a vote of thanks to the President for his capable leadership and dedication to the Institute.

There being no further business, the Chairman declared the meeting closed at 7:30 p.m..



KEITH POGSON
CHAIRMAN

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

16 April 2013