Corporate Treasury Centres in Hong Kong

New Opportunities and Case Studies

InvestHK
The Government of the
Hong Kong Special Administrative Region
of the People's Republic of China

FamilyOfficeHK

HONG KONG MONETARY AUTHORITY
香港金融管理局

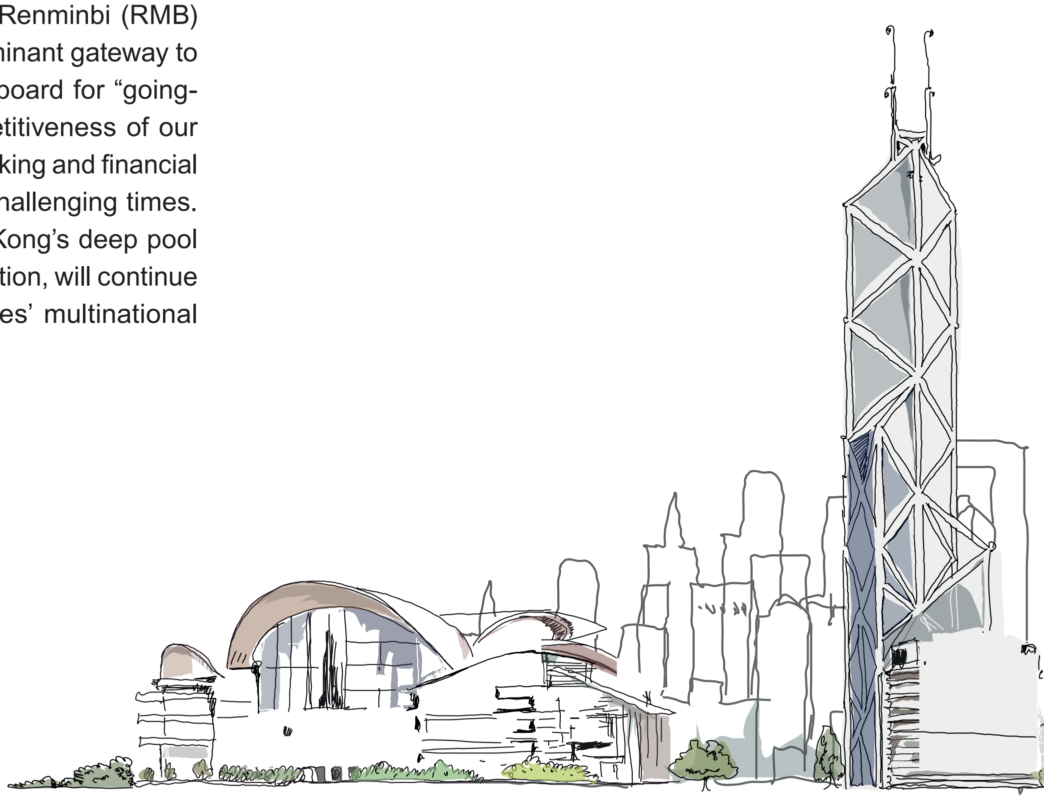
Contents

Preface

The Hong Kong Monetary Authority and InvestHK jointly published the first edition of the "Corporate Treasury Centres in Hong Kong – Case Studies" booklet in 2016, the same year Hong Kong's Corporate Treasury Centre (CTC) tax regime came into effect. As Hong Kong continued to develop as a CTC hub since then, more corporates have come to understand that while a favourable tax environment is an important consideration, Hong Kong presents a whole host of other advantages to make the most of a CTC.

These advantages have become ever more valuable as the global business environment has undergone profound changes in the past years. Despite the challenges, Hong Kong has demonstrated resilience and agility that fortify our position as the preferred location for CTCs. With our strengths as an international financial centre and a global hub for offshore Renminbi (RMB) business, Hong Kong remains the dominant gateway to Mainland China and the major springboard for "going-out" Chinese enterprises. The competitiveness of our financial platforms has enabled our banking and financial businesses to expand even through challenging times. These advantages, along with Hong Kong's deep pool of talents and superior geographic location, will continue to contribute significantly to corporates' multinational treasury management strategies.

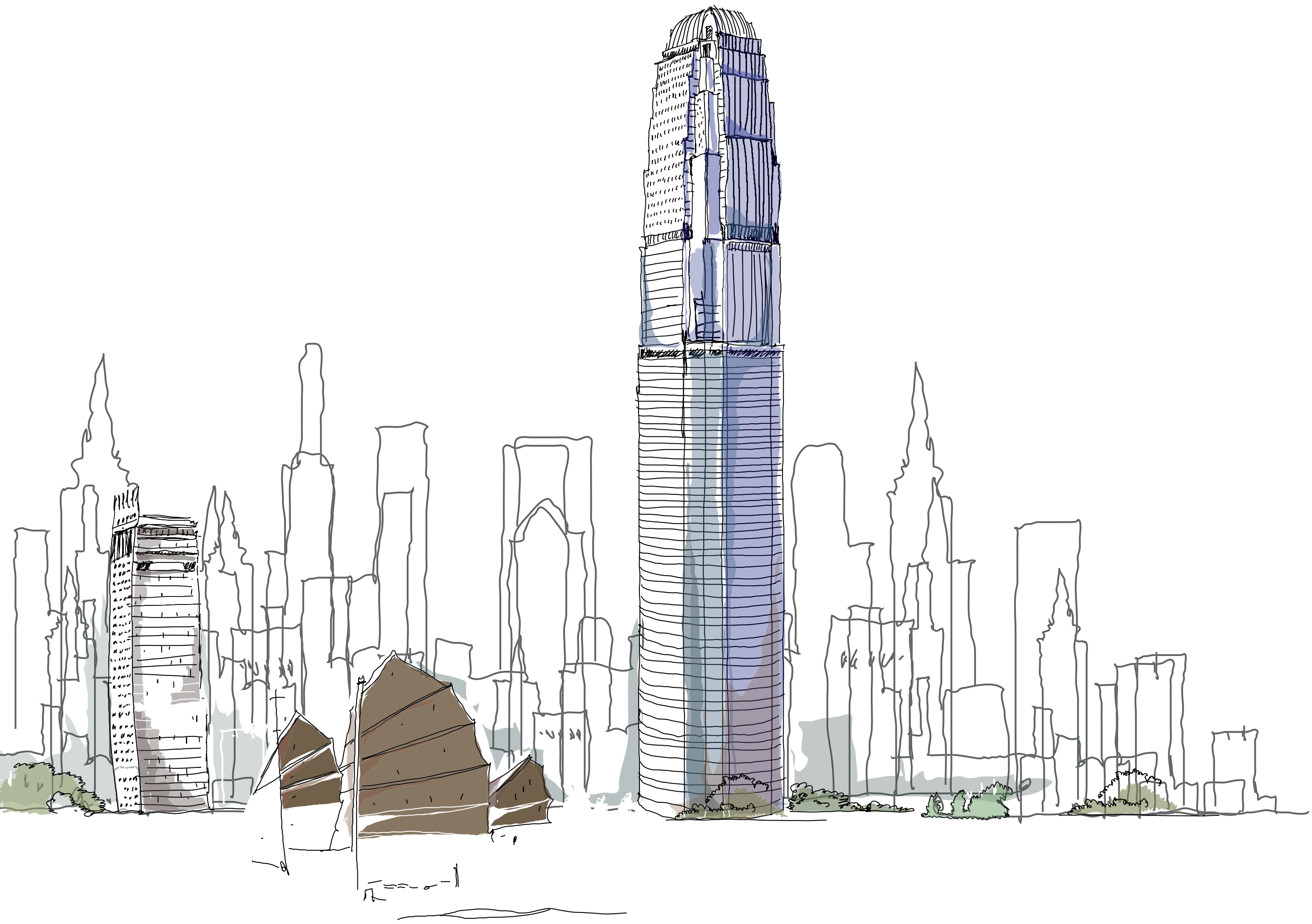
At the same time, the challenging business environment has underscored, if not magnified, the importance of effective corporate treasury management. In the face of global market uncertainties and instabilities, we are seeing a growing demand for solutions that can help CTCs improve cash visibility, reduce risks, drive efficiency and capture new opportunities for their corporates even more effectively. In Hong Kong and over the years, corporates have benefitted from the remarkable innovations of treasury products and services offered by our banks and professional services firms. The ability to centralise, digitalise and automate their treasury activities has placed the CTCs in Hong Kong at the forefront of the global treasury transformation.



Riding on the success of the first case study booklet, this second edition illustrates a wide spectrum of corporate treasury activities being conducted in Hong Kong. Spanning across seven different industries, each featured corporate has a unique story to share. While they may have different goals and objectives, each of these corporates has built a treasury operation in Hong Kong that helps grow their multinational businesses. We hope this booklet will inspire more corporates to create their own successful stories in treasury management by using the platform of Hong Kong.

Darryl Chan, JP
Deputy Chief Executive
Hong Kong Monetary Authority

Stephen Phillips
Director-General of Investment Promotion
Invest Hong Kong



CALC

Supporting capital intensive business with centralised funds management

China Aircraft Leasing Group Holdings Limited (CALC) was set up in 2006 and has its global headquarters in Hong Kong with 83 employees. It is the first aircraft operating lessor and one of the largest independent lessors in Mainland China. CALC has 152 aircraft and orders for 244 new aircraft, with clients in 17 countries and regions spanning across Asia Pacific, the Middle East, Europe and the Americas. The combined asset value of its owned fleet and order book was US$15.6 billion as at 31 December 2021, making it the world's eighth largest aircraft lessor. CALC has been listed on the Hong Kong Stock Exchange since 2014.

CALC offers services at every stage of an aircraft lifecycle, including aircraft operating leasing, purchase and leaseback, portfolio trading and asset management, and value-added services such as fleet planning, fleet upgrade, maintenance, repair and overhaul (MRO), aircraft disassembling and component sales.

Managing large sums of capital

CALC aims to extend its presence as an aircraft leasing leader in Mainland China while speeding up its global expansion, especially in emerging markets. In the long-term, it targets a 50/50 split between Chinese and overseas customers.

Aircraft leasing is a global and capital intensive business that involves dealing with large sums of money, both incoming and outgoing, across a global network of stakeholders. These stakeholders include airlines, aircraft and engine OEMs (original equipment manufacturers), banks and financial institutions, global suppliers, and investors.

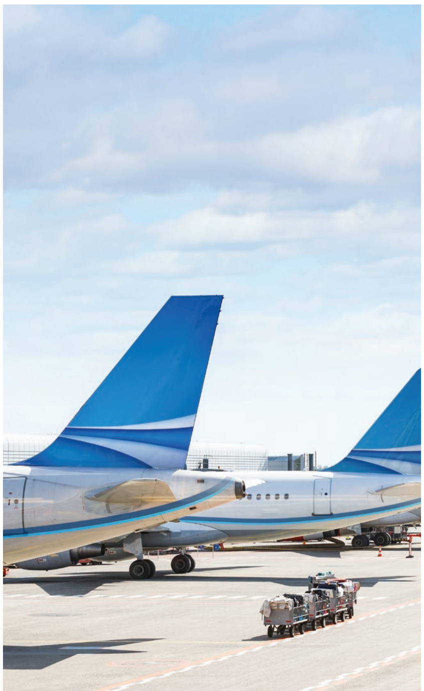
"Buying just one wide-body aircraft can easily cost over a hundred million of US dollar (USD). A global treasury centre is needed to handle all these large cash flows to a worldwide network of counterparties, facilitating transactions of various natures at different stages of the business cycle," said Pitney Tang, Chief Operating Officer of CALC.

Hong Kong's favourable business environment

Hong Kong was seen as the right location for CALC, both as a holding company and a treasury centre for the group's global businesses, and as the operations office for most of its Asia Pacific business.

"Hong Kong's overall business environment is ideal for corporations, especially Mainland

> *A global treasury centre is needed to handle all these large cash flows to a worldwide network of counterparties, facilitating transactions of various natures at different stages of the business cycle.*
>
> ***Pitney Tang***
> *Chief Operating Officer of CALC*



Chinese companies looking for global expansion or multinational corporations seeking to enter the Mainland market," Tang said.

CALC has benefitted from the aircraft leasing tax regime introduced by the Hong Kong SAR Government in July 2017, which makes qualifying aircraft lessors conducting qualifying aircraft leasing activities eligible for tax concessions in Hong Kong.

As a global financial centre, Hong Kong also offers a wide range of banking products and solutions such as fixed deposit, hedging instruments, cash pooling arrangements and an active overnight market, which allow the member companies to generate returns for funds not needed for immediate use.

"Hong Kong is an ideal place for corporate treasury activities as it has developed a financial ecosystem with remarkable competitiveness, including free flow of funds and free convertibility of Hong Kong dollar (HKD), the largest offshore RMB market, sophisticated banking network, deep capital markets with inclusive financial products and instruments, a sound legal system, a favourable tax environment as well as an abundance of international professionals," said Tang. "It also has a unique position that connects

Mainland and international financial markets."

Consolidation for centralised treasury arrangement

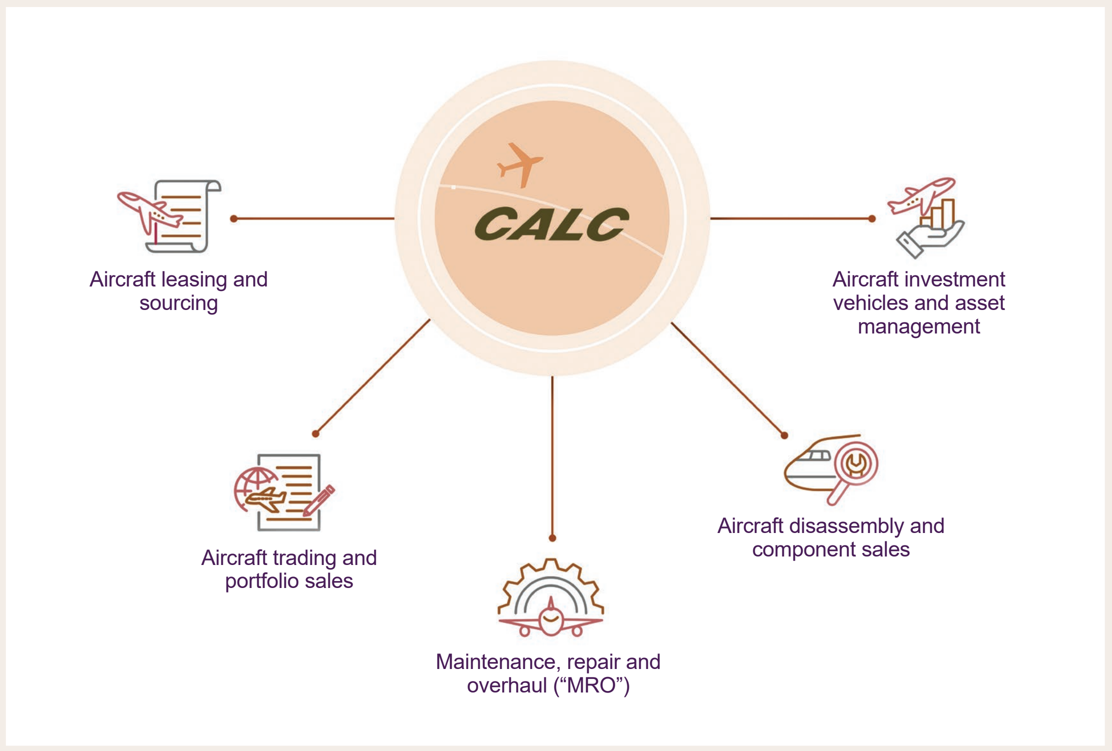
CALC's CTC has 18 employees working in finance and treasury services, including cash and liquidity management, financing management, deal settlement, cross-border payments, and foreign exchange settlements. In particular, they forecast, assess and monitor the working capital requirements and liquidity position of the group, plan and monitor cross-border transactions between Hong Kong, Mainland China and Europe, and prepare and execute fund flows for aircraft transactions and debt financing.

As an aircraft lessor that always demands massive capital, CALC raises funds via diversified onshore and offshore financing channels. These include bilateral project loans, syndicated bank loans, USD bonds, RMB bonds and medium-term notes, structured finance products, among others. Traditional banking facilities and risk management solutions are also deployed to support CALC's daily operations. It can cost CALC tremendous efforts to manage and centralise the funds coming from countless complicated loans. As such, the CTC can play a vital role in streamlining and supervising the fund flows, thereby meeting the intensive capital need of the entire group.

The CTC also liaises with local offices on fund requirements and consolidates their treasury arrangements. This helps CALC plan its use of funds ahead of time, and the CTC enables the member companies to stick to its plans by remitting and receiving money efficiently. The CTC also leverages Hong Kong's banking network, which provides effective treasury solutions when hedging is needed by member companies, such as interest rates or exchange rates hedges.

At present, CALC uses the CTC to improve its cash management efficiency and interest rate management. In the long-term, it will focus on achieving greater centralisation of the treasury functions and expanding its capability in risk management and cross-border transaction management. ■

CTC supporting every stage of the aircraft life cycle



Summary

Treasury centre was founded in	2018
Number of staff	18
Functions	Cash and liquidity management, financing management, deal settlement, cross-border payments, and foreign exchange settlement

CNPC

Enhancing fund management and utilisation for global business growth with treasury centre

China National Petroleum Corporation (CNPC) is a Chinese state-owned enterprise and the country's biggest oil and gas producer. The world's third largest oil company, it has overseas oil and gas operations in more than 30 countries around the world and operates an integrated business portfolio that spans the entire oil and gas value chain.

CNPC established the China Petroleum Finance Co. Ltd (CPF) in 1995 as the group's in-house bank and treasury platform. CNPC Finance (Hong Kong) Limited (CPFHK) was then incorporated in 2008 in Hong Kong as a wholly owned subsidiary of CPF. Positioned as CNPC's sole offshore treasury centre, CPFHK integrates and facilitates CNPC's offshore funds management. It provides comprehensive financial services for the group's overseas operations to support its internationalisation strategy.

The offshore treasury centre

Since its establishment, CPFHK provides offshore treasury services to the group's member companies. It sets up regional and global cash pools, implements the centralised management of offshore funds, and manages the allocation of cash, liquidity and offshore funds. It also receives deposits from and facilitates offshore borrowing for member companies, and provides them with project financing, internal loans, guarantor services and other financial services.

In addition, CPFHK offers a vast array of services and support. It designs and implements offshore trade settlement solutions as well as foreign exchange and financial derivatives hedging solutions for member companies. At the same time, CPFHK issues bonds and short-term papers as required for the group and handles bank borrowing to meet the group's offshore capital needs. It also enhances yields of cash pools by managing surplus funds and marketable securities investments.

Transition from a decentralised to centralised treasury model

Although CNPC has started offshore fund centralisation for over a decade, the management of funds for some member companies remained decentralised. For example, until 2019, PetroChina International (Hong Kong) Limited (PCI) operated a decentralised treasury model across multiple trading entities in Australia, Hong Kong, Singapore, Japan, the Middle East, Canada, the UK and

Hong Kong provides all of these elements that we look for from a CTC and is a natural fit for the firm.

Liao Xiao Yan
Deputy General Manager of CPF and General Manager of CPFHK

the US. Each subsidiary managed its own funds, requiring them to rely on costly external funding or bank overdrafts to meet payment obligations for crude oil trades.

As such, CNPC needed to implement a solution through CPFHK, such that it can better manage and control PCI's liquidity without undermining the flexibility in trade financing. It also wanted to improve PCI's overall funding efficiency and reduce costs associated with external borrowings.

CPFHK partnered with a global bank to design a worldwide cash and liquidity management structure which integrated PCI's global trading entities into a unique two-tier cash concentration structure with two header accounts corresponding to two entities, CPFHK and PCI, respectively. This solution allows surplus balances from PCI's subsidiaries across multiple banking partners to be automatically swept into CPFHK's header account in Hong Kong every day, where the aggregated balances can be used to fund payments in other markets, or are invested to enhance yields.

The structure is further optimised by two innovative mechanisms. Firstly, the Against-the-Sun (ATS) mechanism facilitates the sweeping of funds from the US to Hong Kong after cut-off hours of clearing in the US. The funds can be fully utilised in Hong Kong time zone, thus enhancing the efficiency and effectiveness of the cash pools operating outside Asian time zones. Secondly, the Advise-to-Receive (ATR) capability enables funds received from subsidiaries after cut-off hours of clearing to be credited into PCI's accounts on the same day and used to fulfil payment obligations across its global operations. The well-designed structure achieves better utilisation of PCI's internal cash and lower borrowing cost, while enabling CNPC to enhance control and oversight of PCI's cash operations.

Fostering cross-border collaboration and governance

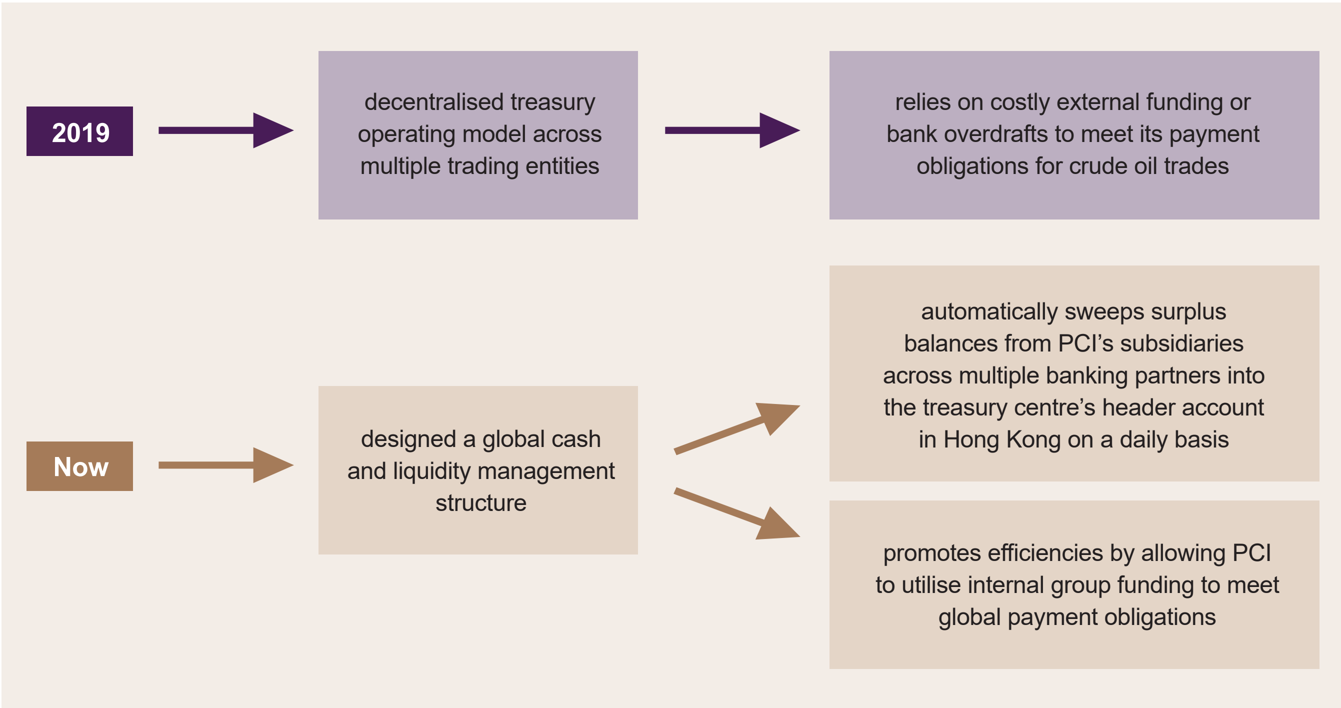
"As a state-owned enterprise delivering a global strategy, CNPC needed an offshore hub in a location near its headquarters for close coordination and governance, mature capital markets to support international fundraising, and an ample talent pool to build a highly competent and world-class finance team," said Liao Xiao Yan, Deputy General Manager of CPF and General Manager of CPFHK.

"The location of the treasury centre needed to have a sound banking infrastructure and an automated global liquidity solution capability to support CPFHK's internal funding requirement, global payment and settlement as well as management of idle cash. Hong Kong provides all of these elements that we look for from a CTC, and is a natural fit for the firm," Liao explained.

Through the new cash and liquidity management structure, PCI can now concentrate over 30% more of its surplus balances into the treasury centre pool, generating treasury efficiencies for PCI, CPF and CNPC. "We have enjoyed a 20-30% reduction in external borrowing and interest costs and same-day value even if incoming funds are received after cut-off hours. Moreover, we see an increased return on surplus balance by concentrating offshore cash, and gained visibility and control on funds of overseas subsidiaries," Liao supplemented.

With activities centralised within the treasury centre, member companies are also able to tap into external funding in Hong Kong at a lower cost. ■

CTC's global cash and liquidity structure



Summary

Treasury centre was founded in	2008
Number of staff	30
Functions	Central management of global cash and liquidity, internal group fund utilisation, oil and gas project financing, foreign exchange risk management, as well as unified clearing, collections and payments
Key facts	Settlement service covers more than 80 countries

CTG DUTY-FREE

Connecting regional accounts for enhanced cross-border governance through centralised settlement

China Tourism Group Duty Free Corporation Limited (CTG DUTY-FREE) operates more than 200 duty free stores in multiple channels including airports, inflight, borders, ship supplies, passenger depots, railway stations, diplomatic personnel, cruises and downtown stores around the world. It also runs the world's largest standalone duty free store, Sanya International Duty Free Shopping Complex in Hainan, providing duty free goods services for nearly 200 million domestic and foreign tourists every year.

China Duty Free International (CDFI) is a wholly-owned subsidiary of CTG DUTY-FREE. Established in Hong Kong in 1996, CDFI is responsible for sourcing goods from international suppliers and managing overseas investment projects. CDFI runs the group's offshore treasury centre and a cash management structure that covers Hong Kong, Macau, Cambodia and other regions. It also manages centralised liquidity settlement operations for the group's offshore companies.

An integrated 'one-point access' settlement system

With the aim of enhancing visibility over offshore liquidity, CTG DUTY-FREE partnered with a Mainland Chinese bank that has a strong international presence. The partnership covered both downstream and upstream activities, including merchant payment acquisition, transaction settlements, cash pooling and the setting up of multi-currency header account structures.

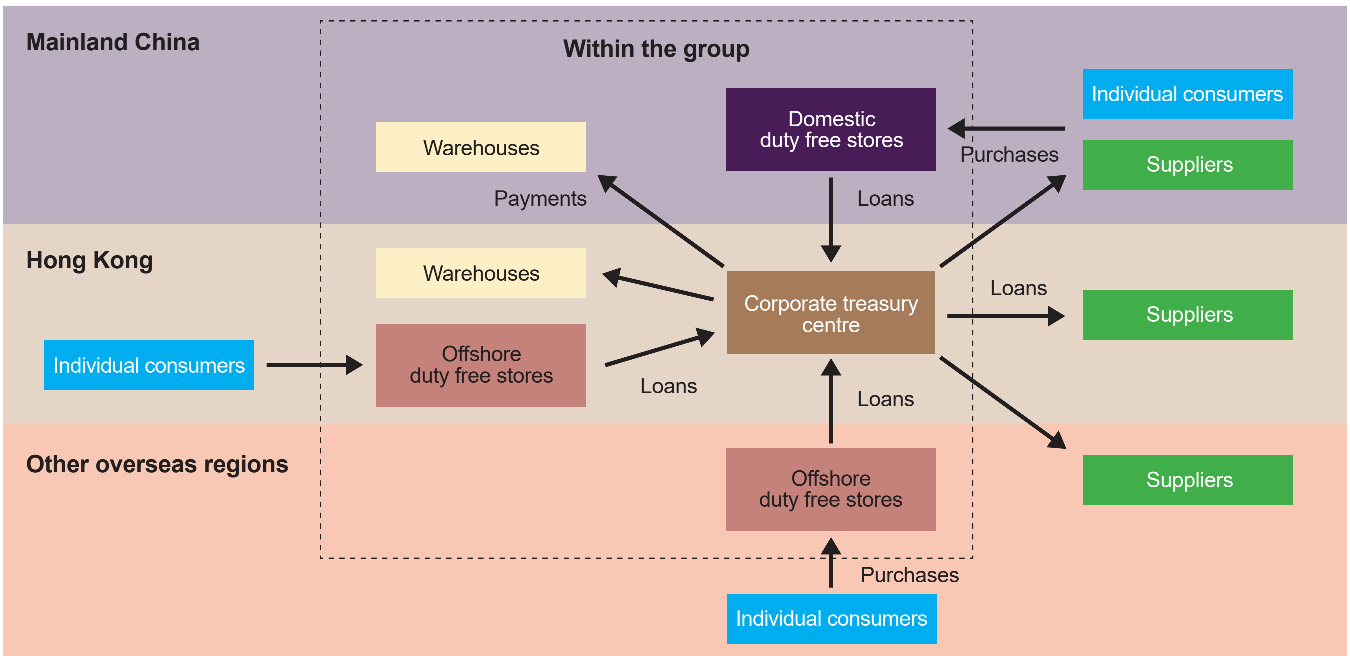
The group adopted an integrated 'one-point access' settlement system that connects the bank with offshore companies, comprising multi-currency bank accounts and a range of access rights for employees. This structure allows CDFI to have oversight of its liquidity performance and treasury approval rights and at the same time standardises the fund settlement procedures, thereby supporting the centralised management of the group's many points-of-sale. Offshore entities can be easily added to the system, enhancing the group's cross-country and cross-region cooperation.

By connecting cash pooling sub-accounts in Cambodia, Hong Kong and Macau with the main treasury centre account in Hong Kong, CDFI can oversee capital gains and utilise the idle liquidity for different purposes. For example, it can support early-stage member companies that have weaker banking affiliations by offering them more convenient internal financing and yield improvement solutions.

> *Setting up a treasury centre in Hong Kong allows us to use Hong Kong as a hub for onshore and offshore funds and to leverage Hong Kong's cross-border bilateral pooling infrastructure to build an interconnected global cash management structure for our global businesses.*

Yan Jia Qiang
Director of CDFI

Duty-free business model



CDFI's online foreign exchange needs are met by the bank's cash pooling services, which covers more than 17 currencies, whereas purchases and use of foreign currencies in payment are handled by the bank's real-time settlement system. As CTG DUTY-FREE's headquarters and several of its operations are located in Mainland China, many of the group's transactions are conducted in RMB. The treasury centre and its partner bank can handle such cross-border RMB clearance efficiently at competitive foreign exchange rates.

Hong Kong as a hub for onshore and offshore funds

"Hong Kong has a simple tax system and robust business infrastructure, both of which are crucial for duty-free sales business," Yan Jia Qiang, Director of CDFI, said.

"To meet the needs of our global presence, the location of the treasury centre needs to offer comprehensive cross-border financial services as our largest distribution market is Mainland China and our suppliers and stores are spread across multiple international locations," Yan explained, "Setting up a treasury centre in Hong Kong allows us to use Hong Kong as a hub for onshore and offshore funds and to leverage Hong Kong's cross-border bilateral pooling infrastructure to build an interconnected global cash management structure for our global businesses."

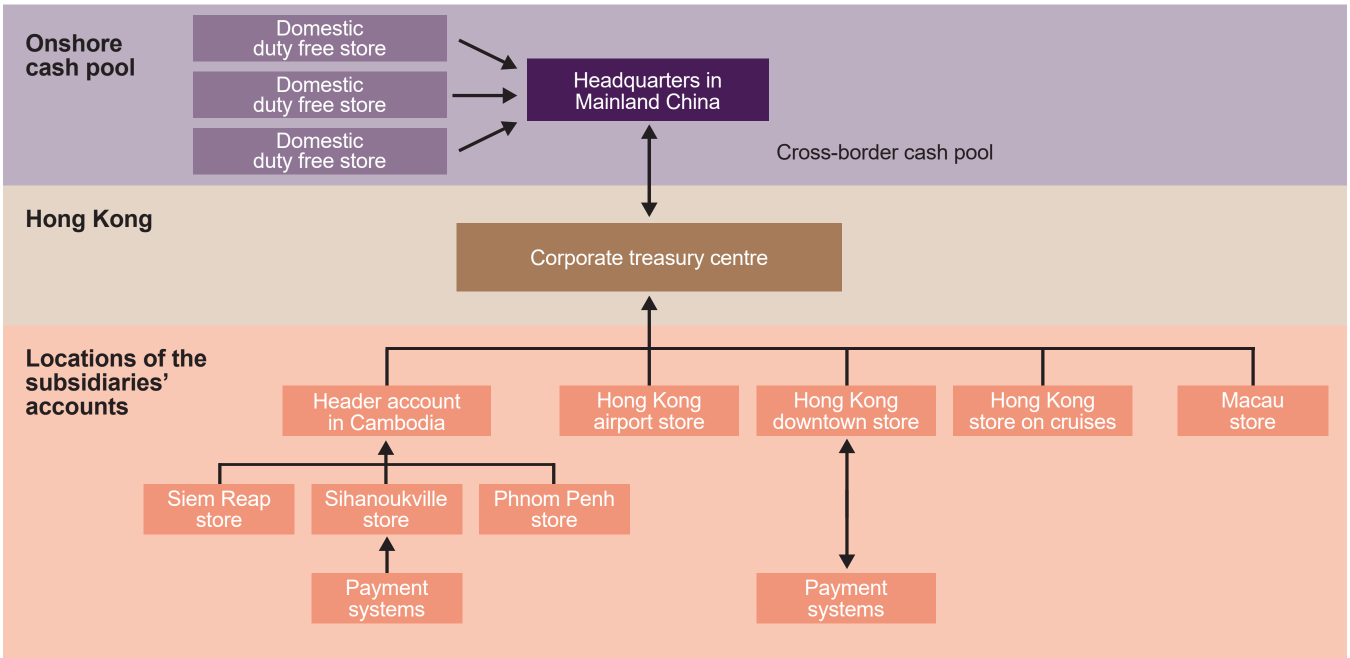
As a major international financial centre, Hong Kong has competitive advantages in terms of capital safety, tax policies, financial ecosystem, geographic location, professional talent and physical infrastructure. Yan recognised that "Hong Kong has a highly efficient business environment and years of experience in global trade. Its holistic, transparent and efficient legal framework, deep pool of well-educated professionals and superior physical infrastructure, such as world-class airport and ports, are complemented favourably by its unique position as an offshore financial hub adjacent to the Mainland."

Optimised cross-border treasury function

Through the new settlement system, CTG DUTY-FREE has achieved enhanced visibility and control over cross-border treasury governance, and benefitted from labour cost reductions in its Beijing headquarters, as well as in its subsidiaries in Hong Kong and elsewhere. "Our treasury settlement function has been optimised, resulting in 560% growth in transactions per month, and we have seen 89% growth in CDFI's centralised settlement volumes," said Yan.

The treasury centre has also received a higher volume of deposits from international subsidiaries, and has been able to improve its foreign exchange trading ability and management by carrying out transactions in multiple currencies. ■

Structure of cross-border cash pool



Summary

Treasury centre was founded in	2020
Number of staff	13
Functions	Downstream merchant payment acquisition, transaction settlements, upstream cash pooling and multi-currency header account structures
Key facts	• Number of transactions per month increased from 750 to 5,000; • Monthly transaction volume increased from US$169 million to US$560 million; • Average account balance in treasury centre increased from US$100 million to US$500 million; and • Currencies used in Hong Kong account increased from 3 to 10.

HAID Group

Centralising treasury management operations for overseas expansion

Established in 1998, Guangdong HAID Group Co. Ltd (HAID Group) operates across the entire industrial chain of feed, seedlings, biopharmaceuticals, smart farming, food circulation and finance. As well as direct product sales, HAID Group is an industry leader in service marketing, providing farmers with full breeding service capabilities.

Since 2018, the group has set up its CTC and a global procurement centre in Hong Kong to centralise the development of its overseas raw material procurement and trade business as well as treasury management business – with HAID International as the CTC of HAID Group.

Evolving financial management challenges

As a global enterprise operating dozens of manufacturing companies abroad, HAID Group faced multiple challenges in financial management such as scattered working capital, decentralised management and control of foreign exchange risks, and high bank financing costs. As the group expands overseas rapidly, the needs for centralised management of capital, financing and risk are constantly increasing.

To align with its international strategic direction, the group also needed to establish an offshore financing platform, strengthen its links with overseas financial institutions, and ensure its readiness to secure overseas bank financing in the inter-market and bond markets. This would lay the foundation for the group's treasury management and help HAID Group achieve its vision of becoming a world-class high-tech agricultural and animal husbandry enterprise.

Hong Kong: the best choice for a CTC

When the Mainland Chinese-funded group picked the location of its global treasury centre, a list of core requirements was looked into. These included attractive and accessible treasury policies, open and prosperous financial markets, stable political environment, a clean and efficient government, high-quality human resources, convenient geographic location and transportation facilities, as well as professional and supportive financial and consulting institutions.

“Companies considering setting up a treasury centre should fully understand their own business needs and Hong Kong’s business environment, estimate the feasibility of treasury operation, and comprehensively consider the project’s future business planning and income generation.”

Ding Bao Li
Treasury Director of HAID Group

Hong Kong’s good overall business environment has made it HAID Group’s destination of choice. “We believe that Hong Kong has all the conditions that we look for and is the preferred location for our global treasury centre,” said Ding Bao Li, Treasury Director of HAID Group. “In addition, Hong Kong talents are well known for their good professional knowledge, strong sense of responsibility, excellent and comprehensive ability, and high efficiency, which will play an important role in realising the group’s global ambition.”

The treasury centre in action

HAID International places its initial focus on providing internal financing and ensuring a decent overseas investment. As for the long-term, the treasury centre is mainly responsible for undertaking the group’s overseas treasury business and overseas subsidiaries’ cross-border capital pool lending business. It is also tasked with managing interest rate risk, offering support on working capital loan and credit guarantee, as well as providing consulting services on exchange rate risk and global project investment.

The treasury centre primarily serves the host countries and regions where the group invests, including but not limited to Hong Kong, Vietnam, Indonesia, Malaysia, India, Bangladesh and Ecuador. "The targets of our treasury services are all overseas entities and subsidiaries," said Ding.

A board of directors was established in accordance with the corporate governance regulations of Hong Kong consisting of three directors. Under its oversight, the treasury centre provides professional support in standardising financial management and also coordinates financial resources for the group.

From idea to successful implementation

Prior to launching the treasury centre and promoting its establishment within the group, HAID Group carried out prudent preliminary research and detailed the implementation steps. The group started by understanding the political, commercial, financial, tax, regulatory and other environments that could impact the plan to establish the treasury centre, and took reference from cases of multinational companies. It then sought internal and external resources, and made necessary adjustments to the model to meet its strategic requirements. To fully prepare for the development of treasury business, the group also approached overseas financial institutions to expand credit lines and enrich banking products.

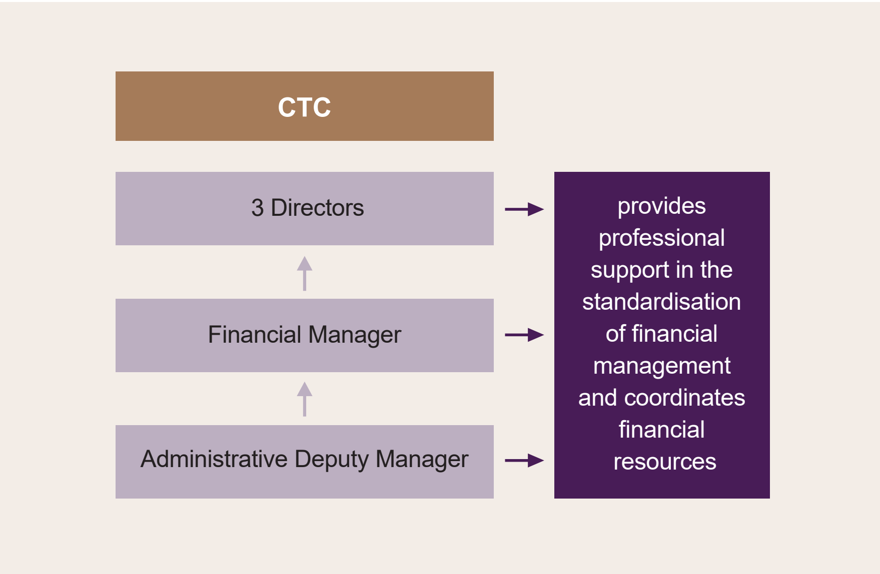
Building on the groundwork, HAID Group formulated a substantive setting that complies with the policies of qualified CTCs in Hong Kong and the transfer pricing regulations of various markets. It is necessary to have a deep understanding of the requirements for the establishment of treasury centres as well as the tax policies of Hong Kong and related countries, Ding highlighted, "Companies considering setting up a treasury centre should fully understand their own business needs and Hong Kong's business environment, estimate the feasibility of treasury operation, and comprehensively consider the project's future business planning and income generation."

Leveraging Hong Kong's strengths

Because of Hong Kong's geographic advantages and its convenient finance and logistics services, HAID International has been able to build a high-quality management team, gain access to high-quality suppliers, financial institution resources and numerous profitable investment projects, and take advantage of extensive trade and sales channels.

At the same time, by establishing two cross-border capital pools, HAID International and its parent company HAID Group in Mainland China have achieved efficient exchange of cross-border funds and further safeguarded HAID International's treasury business. ■

Governance structure of CTC in Hong Kong



Summary

Treasury centre was founded in	2018
Functions	Overseas fund management, cross-border capital pools, exchange rate risk management, and overseas investment projects management

SAIC Motor

Centralising funds through a global liquidity structure

SAIC Motor Corporation Limited (SAIC Motor) is a Chinese state-owned company and the largest automobile manufacturer in the Mainland, with a quarter share of the market. By focusing on innovation, it has grown from a traditional manufacturing company into a comprehensive provider of auto products and mobility services. Its business operations stretch globally, with manufacturing bases in Thailand, Indonesia and India, and research and innovation centres in the US, the UK and Israel. In addition, there are 13 sales and marketing offices across the Middle East, South America, Australia and Europe.

In August 2020, SAIC HK International Finance Limited (SAIC HKIF) was set up in Hong Kong to manage SAIC Group's overseas treasury responsibilities.

Tackling global treasury challenges

As SAIC Motor expanded, it became more challenging for the group to manage global liquidity and working capital funding. The group's liquidity structure had become highly decentralised over the years. New bank accounts had been added by subsidiaries in overseas markets and relationships with local banking partners had expanded. This structure exposed the company to several risks, including a lack of visibility into overall cash movements and high costs in managing bank accounts in different markets.

The group therefore set up a treasury centre to improve visibility and strengthen controls of its offshore cash. As a centralised platform, SAIC HKIF manages the group's offshore liquidity, foreign exchange and interest rate risks, and runs a trade financing programme for subsidiaries. It has both Hong Kong local and connected cross-border cash pooling structures.

SAIC HKIF's key tasks include managing foreign exchange exposure centrally and optimising overall cash flows and positions for the group. The treasury centre is also responsible for advising, proposing, and recommending solutions for foreign exchange and interest rate risk management for offshore subsidiaries. In addition, it supports SAIC Motor's trade activities in automobile exports, including trade financing as well as payment and collection services for the group's import and export business. It also provides financing and arranges funding for member companies at competitive rates.

> *By centralising its offshore treasury activities in Hong Kong, SAIC Motor has gained greater control of its cash management, strengthened its treasury governance, and improved its operating efficiencies.*

Tao Zheng
Deputy General Manager of SAIC HKIF

A new liquidity structure to centralise funds

SAIC HKIF partnered with a global bank as its new overseas core cash management bank, and set up a liquidity structure to centralise SAIC Motor's regional and global funds. This new structure includes a physical cash concentration structure in the US that links the accounts of SAIC Motor's entities in the US, Hong Kong and Canada in the North America region. It also connects the US header account with the treasury centre's cross-border cash pool in Hong Kong.

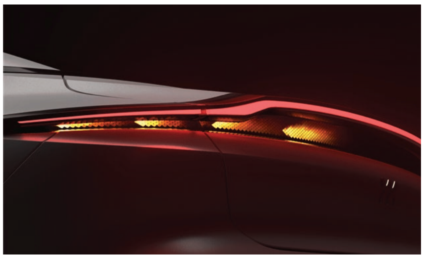
By consolidating surplus cash across its overseas markets in one treasury centre, SAIC HKIF is able to centralise control and manage the firm's liquidity and working capital in a single location to drive greater efficiencies. With excess cash in the US pooled into the treasury centre, the solution allows SAIC HKIF to optimise surplus liquidity across the firm by using it to meet working capital requirements in growth markets and regions.

Transformation leading to a multitude of advantages

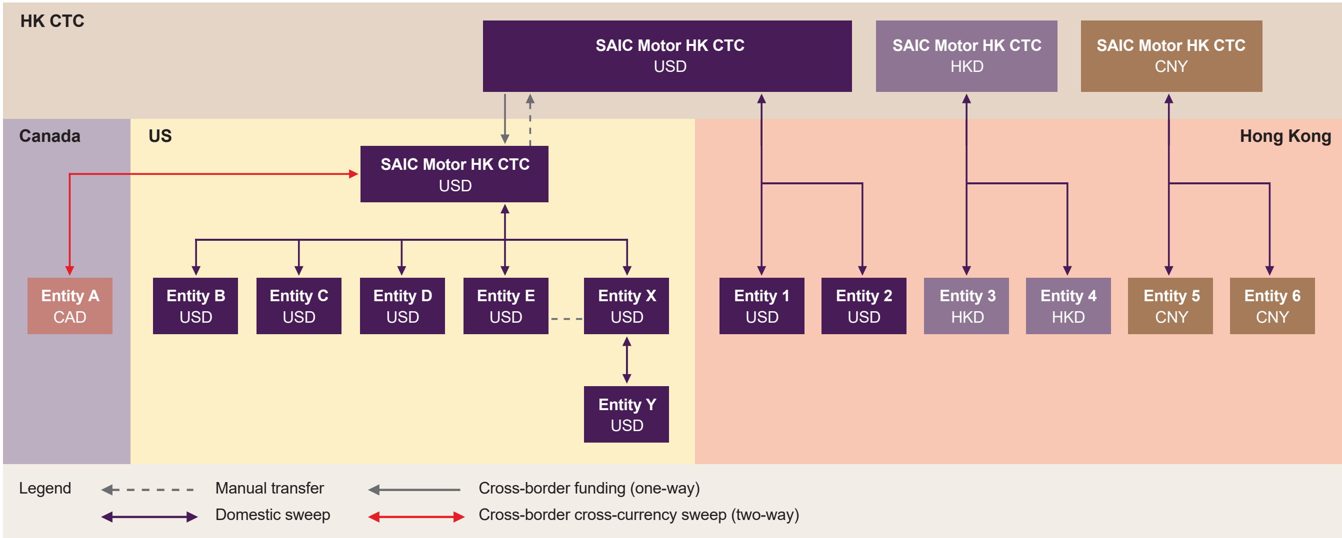
"We chose Hong Kong as our treasury centre location because it offers an efficient regulatory framework, a wide network of specialised finance and treasury resources, and a broad set of banking capabilities, all with minimal constraints for companies," said Tao Zheng, Deputy General Manager of SAIC HKIF. As SAIC Motor is headquartered in Mainland China, Hong Kong's ability to offer a wide range of RMB currency-related solutions was another important factor driving the decision to set up the company's offshore treasury centre in Hong Kong.

"By centralising its offshore treasury activities in Hong Kong, SAIC Motor has gained greater control of its cash management, strengthened its treasury governance, and improved its operating efficiencies." Tao said. In particular, SAIC Motor has been able to rationalise its liquidity structure by consolidating multiple banking relationships across regions, and leverage an against-the-sun mechanism that facilitates the cross-border sweeping of consolidated surplus funds from the US to Hong Kong without any loss of value in liquidity, as cash coming into Hong Kong after cut-off hours are back-valued.

The treasury centre also enables the company to optimise the use of funds by aggregating surplus funds to maximise returns, and by using excess cash in the US to fund other growth markets as working capital. Through a centralised liquidity approach, the objective of enhancing the group's visibility and control of global liquidity was achieved. ■



New liquidity structure centralising regional and global funds



Summary

Treasury centre was founded in	2020
Number of staff	12
Functions	Management of foreign exchange and interest rate risks, cash pooling, trade financing, as well as payment and collection

Tam Jai

Optimising multi-currency cash management

Tam Jai International Co. Limited (Tam Jai) is a leading restaurant chain operator of TamJai Yunnan Mixian (TamJai brand) and TamJai SamGor Mixian (SamGor brand). The company's customers include people from all walks of life with a focus on teenagers and young to middle-aged adults. Both brands are positioned as fast casual restaurants aimed at providing quality food and quick services at competitive prices.

Tam Jai opened the first TamJai-branded restaurant in Hong Kong in 1996, and the first SamGor branded-restaurant in 2008. To date, the company has grown into a reputable F&B group listed on the Hong Kong Stock Exchange. It is owned by the Tokyo Stock Exchange-listed Toridoll Holdings Corporation, which provides Tam Jai with business consulting services in alignment with its business strategy.

Operating a cash-heavy business

Tam Jai runs a cash business with thousands of cash transactions taking place in the restaurants on a daily basis. A treasury centre is needed in Hong Kong to enhance the efficiency of capital usage in order to support its day-to-day operations and to meet the high capital requirement driven by its plans for global expansion and acquisitions in Mainland China and overseas. Serving as an in-house bank, the treasury centre would help Tam Jai optimise its multi-currency cash management and improve the liquidity of the company as a whole. With the growth of business in the overseas markets, the Hong Kong treasury centre can also serve as Tam Jai's global treasury, facilitating regional financing with the regional treasury centres that the company is considering setting up.

Having established a strong presence in Hong Kong with over 160 restaurants across the territory, Tam Jai has also expanded into Mainland China, Singapore and Japan, and is continuing to expand its operations into Australia. Although Tam Jai is growing its international operations, its cash in multiple currencies are still managed by respective local offices. To enhance cash visibility within the company, the treasury centre is responsible for centralised cash management. It adopted a global cash pooling solution to sweep cash into a header account, thereby minimising foreign exchange risk and maximising the central cash pool to attain optimised investment return.

In addition to cash management, foreign exchange risk management is another crucial task undertaken by the treasury centre. With different

Engage a trusted banking partner and professionals to explore every possibility that a treasury centre can bring to your business.

Rita Chan
Chief Financial Officer of Tam Jai International

restaurants and offices opening and operating across the globe under Tam Jai's expansion and strategic plan, the treasury centre plays an important role in handling cross-currency settlement as well as overseas investments and loans denominated in foreign currencies.

Hong Kong's open and favourable business environment

Hong Kong is a natural and logical choice for the group's CTC. Tam Jai is headquartered in Hong Kong and all of its C-suite decision makers are based in the city, in addition to approximately 3,000 employees including senior management, back office and frontline staff. Setting up a treasury centre in Hong Kong would eliminate any need for building up a physical presence in other jurisdictions.

Hong Kong also offers an open and favourable business environment to investors without restrictions on foreign ownership, and is an easy place to set up a business. As an international financial centre, Hong Kong has all it takes for corporations wishing to establish a regional treasury centre and expand their business presence in Asia. "Hong

Kong not only allows the free flow of capital and goods across the border, but also provides businesses with a sound banking network as well as a simple and competitive tax system," said Rita Chan, Chief Financial Officer of Tam Jai International. "These remain the core success factors for Hong Kong to be the preferred location for setting up a treasury centre."

Opportunities down the road

Specifically, Hong Kong's geographic location and professional talent are two of the unrivalled advantages that make the city the best location for Tam Jai's treasury centre.

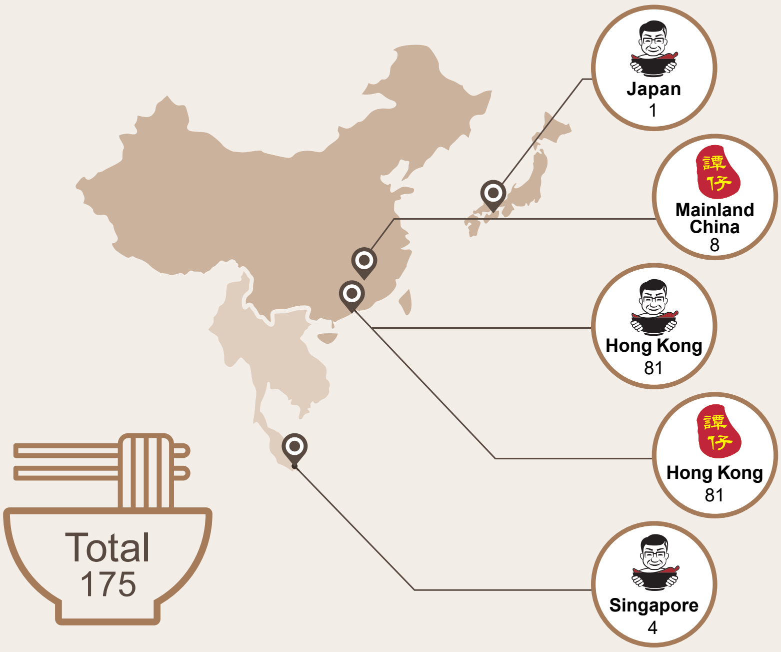
Tam Jai is planning to expand its business into the Greater Bay Area (GBA), which it sees as a key growth area and a revenue-generating market. As a well-established Hong Kong enterprise, Tam Jai can leverage favourable policies offered by the Mainland to venture into neighbouring GBA cities and capitalise on the burgeoning market opportunities.

Advice to new comers

Without the right people to execute, a vision will only be confined to where it began. Based on its long history of experience in Hong Kong, Tam Jai sees Hong Kong's talent pool as a rich resource where it can find finance professionals of the right calibre.

"Engage a trusted banking partner and professionals to explore every possibility that a treasury centre can bring to your business," said Chan. "For example, the experienced professionals are able to provide useful advice in relation to the set-up and operation of the treasury centre based on your existing operation and structure, and your different concerns and upcoming strategy plans," Chan further explained. ■

CTC supporting global expansion



Restaurants (as of 31 March 2022)

Hong Kong:	162
Mainland China:	8
Singapore:	4
Japan:	1

Summary

Treasury centre was founded in	2022
Number of staff	10
Functions	Multi-currency cash management, regional financing, foreign exchange risk management, cross-currency settlement as well as overseas investments and loans

Trinseo

Driving fast-growing investments across the region

Trinseo Group (Trinseo) is an independent public company trading on the New York Stock Exchange. It was part of Dow Chemicals until 2010. The group manufactures and sells plastics, latex binders and engineered materials that it produces in 32 manufacturing plants across 12 countries. It also operates ten R&D and technology and innovation centres, which are a key component of its global market offerings.

Trinseo's target customers are major tyre and automotive companies as well as companies trading in carpet and artificial turf backing, coated paper, specialty paper and packaging board, food packaging, appliances, medical devices, consumer electronics (such as smartphones and tablets) and construction applications. Trinseo Hong Kong has 83 employees in its office and plant located in Tsing Yi. The group's regional treasury centre and functional hub in Hong Kong provide a range of services including strategic tax direction, treasury management, statutory accounting, marketing communications, supply chain management, and R&D.

Operation of the treasury centre

Trinseo seeks to generate faster growth by expanding its newly acquired business footprint into Asia. The key tasks of the treasury centre are foreign exchange and cash and liquidity management. "As the group expands, the treasury centre will be responsible for ensuring that our new investments comply with local requirements or restrictions on foreign investment. It will also work with the company's tax team to plan for capital repatriation in a tax efficient manner," said Timothy Chuk, Tax Director – Asia Pacific of Trinseo Hong Kong.

The treasury centre communicates with banks across many different regions and manages bank relationships. These include arranging banking services and facilities, as well as setting up foreign exchange management and short-term surplus cash investing arrangements.

Taking the movement of Indonesian Rupiah as an example, a rising Rupiah may result in more expensive purchases of local services and goods, reducing Trinseo's net profit and adversely impacting its bottom line and future cash flows. In response, the treasury centre develops a portfolio comprising intercompany loan, equity and local cash balances for the Indonesian subsidiary to hedge its USD-denominated debt. By doing so, the Hong Kong treasury team effectively manages the balance sheet exposure risk of overseas subsidiaries.

"Hong Kong offers an extensive banking network that facilitates efficient cash allocation and supports our growth, and deep capital markets to perform corporate treasury functions."

Timothy Chuk
Tax Director - Asia Pacific of Trinseo Hong Kong

At the same time, the treasury centre acts as an in-house bank within Trinseo which focuses on centralising control and usage of global funds for the group companies. The in-house bank would also facilitate intragroup borrowing and lending transactions by identifying any capital surplus or shortage of group companies located in different jurisdictions, effectively providing the headquarters with a full picture of the financial status and needs of different companies. This lowers the cost in managing the corporate finance in respective companies for better capital utilisation within the whole group.

A banking network for cash allocation

"Hong Kong offers an extensive banking network that facilitates efficient cash allocation and supports our growth, and deep capital markets to perform corporate treasury functions," said Chuk. Hong Kong also has the commercial infrastructure that an international trading company needs. For example, when Trinseo's customers in Mainland China wish to purchase bonded, non-dutiable materials, Hong Kong would be the preferred location of the customer to do business with. Hong Kong has a business-friendly tax system that provides investors with certainty to engage in trade and investment that lead to business growth.

The city is a strategic location that offers commercial and geographical access to fast-growing Asian markets, including Mainland China. It has no foreign exchange controls and is a duty-free port. As Chuk explained, these are important considerations for Trinseo as it helps the company manage the movement of goods and funds throughout the region. Hong Kong's proximity to Mainland China means that the company will be able to take advantage of major opportunities as it expands its projects into the Mainland market.

Hong Kong also offers an excellent talent bank. "Hong Kong employees are often seen as more adaptable in the workplace, which is very attractive to employers looking for an international mind-set for their multinational corporations," said Chuk.

Establishing an effective treasury centre

A regional treasury centre in Hong Kong can support the group companies outside of Hong Kong that need to conduct transactions across several time zones and deal with regulations in different countries. Chuk urged companies to identify their key requirements in order to set up the most effective treasury structure that fulfil their specific needs.

"You need to have the answers to some key questions. For instance, where do the company's net cash inflows and outflows take place? Which countries and jurisdictions are liquidity of your company generated in, and in which currency?" said Chuk, "These questions can help you get a better idea of your liquidity needs, in each currency and in each market." ■

How treasury centre manages balance sheet exposure risk

Summary

Treasury centre was founded in	2010
Number of staff	5
Functions	Foreign exchange hedge, cash and liquidity management, compliance of new investment and capital repatriation

With Hong Kong's strengths as an international financial centre and offshore RMB business hub, complemented with a sound legal system, high quality professional talents, a mature financial infrastructure and banking system, and a wide range of banking services, Hong Kong is the best location for setting up CTCs.

When corporates establish CTCs, the partnering bank plays a vitally important role. Through the bank's international branch network and advanced global cash management platform, CTC clients can enjoy one-stop access to its global accounts for more efficient management. A suite of banking products and services are also available to the corporates to improve its cross-border cash management efficiency.

Multinational corporates often encounter various challenges while setting up their CTCs and centralising their cash management operations. The three major challenges are:

1. Relatively high risk: Corporates are subject to a string of risks when engaging in cross-border operations, including risks associated with exchange rate, interest rate, liquidity, taxation, laws and regulations, etc.

2. High financing cost: When the group expands the scale of its overseas operations, the cost of initial capital is generally high because it takes time to build the partnership with local banks.

3. Low efficiency of fund uses: This can be attributed to many reasons, including for example, foreign exchange control. If funds are scattered across subsidiaries and markets, the efficiency of use is affected.

On the other hand, every corporate has their own cultural background and organisational structure. Also, the policies and regulatory requirements in different regions are not the same and are updated from time to time. As such, it is difficult for corporates to find a one-size-fits-all set of cross-border financial services that tackle all the challenges.

As one of the three note-issuing banks, the sole clearing bank for RMB business in Hong Kong and with the strong market positions and overseas branches all over the world, Bank of China (Hong Kong) has extensive experience and a track record of setting up CTCs for many multinational corporates and mainland enterprises going global for years. These successful cases prove that the bank fully understands the opportunities and challenges that corporates are facing. As a leading commercial and internationalised regional bank with deep roots in Hong Kong for over 100 years, in the process of helping corporates set up their CTCs, Bank of China (Hong Kong) offers tailor-made solution and advice that address the different existing pain points of the business.

Setting up a CTC to centralise treasury activities allows corporates to achieve:

1. better visibility and control over group liquidity;
2. more effective management of foreign exchange and interest rate risks;
3. enhancement of financial returns through economies of scale;
4. rationalisation of bank account structures and centralisation of banking relationships for pricing negotiation and cost reduction; and
5. optimisation of working capital and treasury processes to improve efficiency.

Asia continues to be the world's principal economic growth engine, attracting multinationals to set up regional headquarters or offices. As multinational and Mainland corporates expand both within the region and beyond, setting up a CTC helps address their needs for greater operational and financial efficiency. However, given that Asia is very diverse in terms of market practice, culture, language, currency, politics, and regulations, it is important for corporates to choose a suitable location and the right banking partners that can serve their broad spectrum of treasury activities.

Hong Kong is an international financial centre and the world's largest offshore RMB business hub. The city offers a robust financial infrastructure, extensive banking network, sophisticated banking products, and a deep talent pool with international experience in financial and professional services. CTCs in Hong Kong can also take advantage of its simple tax regime and tax incentives applicable to CTCs and specified qualifying treasury activities.

With its Asia-focused branch network, digital capabilities, regional connectivity and full suite of solutions, DBS is committed to helping corporates improve operational efficiency, capitalise on growth opportunities in Asia and support their business expansion in the region.

For corporates engaging in cross-border business, DBS supports fast, cost effective and secure cross-border payments within DBS network, which allows real-time tracking of transaction status on online platform. Corporates can also establish domestic or cross-border cash pools with DBS to optimise their group liquidity position, minimise working capital gaps, reduce funding costs, manage intercompany lending with appropriate controls, and enhance interest yield based on aggregated balances in multiple currencies across various locations.

J.P.Morgan

As operational complexities increase with corporate growth and expansion, setting up a CTC to centralise and standardise treasury processes enables businesses to optimise cash and liquidity efficiencies, while improving governance at scale.

While the initial setup is important, corporates should assess and structure their CTCs carefully based on their business requirements. Corporates also need to keep up with the pace of market and regulatory changes, particularly in Asia that covers a diverse set of markets.

It is important to identify a reliable bank with the expertise, capabilities and reach that can help corporates set up their CTCs and navigate both the local and regional environments, while positioning their organisations for future growth. J.P. Morgan remains committed to helping both multinational and Mainland corporates build out their centralised hubs in Hong Kong.

Hong Kong, with its proximity to Mainland China, well-established infrastructure, free flow of capital, sound legal system, simple and competitive tax environment, high quality talent, as well as deep capital and foreign exchange markets, has long been a premier choice for multinationals and Mainland corporates to set up their regional treasury hubs.

Given its position as the world's largest offshore RMB business hub, the city boasts a deep RMB market where it executes a sizable volume of trades in RMB across a number of assets. Hong Kong is also at the centre of the Greater Bay Area (GBA) – a strategic initiative announced by the Mainland government to promote coordinated economic development among a world-class city cluster.

J.P. Morgan has helped a number of multinational corporate clients deploy cross-regional liquidity and global management structures to centralise excess cash from their overseas entities into their CTCs in Hong Kong. This helps generate greater funding efficiency and yield efficiencies, and benefits corporates with operations around the world.

Corporate Treasury Centre (CTC) from a Hong Kong tax perspective

Hong Kong provides a conducive tax environment and friendly tax policies to qualifying CTCs.

Qualifying CTCs satisfying the specified conditions can enjoy a concessionary profits tax rate of 8.25%, i.e. 50% of the standard profits tax rate. The concessionary profits tax rate applies to profits derived by a *qualifying CTC* from certain *qualifying corporate treasury activities*. The in-scope corporate treasury activities are:

(1) carrying on an intra-group financing business;
(2) providing a corporate treasury service[1] ; and
(3) entering into a corporate treasury transaction[2] .

A CTC would be regarded as a qualifying CTC if it is a corporate entity solely dedicated to the conduct of one or more of the aforesaid corporate treasury activities. Such a CTC also has to meet the business substance requirements whereby (i) the central management and control of the CTC concerned for a year in question has to be exercised in Hong Kong; and (ii) the activities that produce the qualifying profits in that year have to be either carried out in Hong Kong by the CTC itself, or arranged by the CTC to be carried out in Hong Kong.

Where the CTC undertakes other activities in Hong Kong in addition to the above specified corporate treasury activities, it may still be regarded as a qualifying CTC if it satisfies the prescribed safe-harbour rule[3] , or if it has obtained a Commissioner of Inland Revenue's determination.

Qualifying CTCs that wish to enjoy this preferential tax treatment are required to make an irrevocable election in writing to the Inland Revenue Department ("IRD"). In other words, pre-approval application is not required. Once an election is made, the qualifying CTC needs not make such election for every year of assessment in which it is entitled to the tax concession. Currently, the CTC regime does not have a sunset clause or expiry date.

Dedicated to creating long-term value for clients, EY professionals have worked with many multinationals and Mainland corporations to scale their global operations and build out their regional and global treasury centres in Hong Kong. Drawing on EY's experience, there are three stages to the setting up of a CTC, namely planning, implementation and operation.

In the initial planning stage, an assessment should be conducted to ascertain whether a company will be able to meet the relevant requirements of a qualifying CTC, design a tax-efficient holding structure and analyse the tax benefits and potential cost from becoming a qualifying CTC. The CTC is also advised to conduct a transfer pricing analysis to ensure that the inter-company transactions will be conducted at arm's length. To obtain certainty on the eligibility for the tax concession, the CTC may apply for an advance ruling from the IRD.

Once the CTC is established, it needs to ensure sufficient substance be maintained for carrying out the corporate treasury activities in Hong Kong. The CTC should also ensure that proper documentation be maintained to demonstrate that both the central management as well as control of the CTC are exercised in Hong Kong. Examples include formulation of strategic decisions by directors/ key management team based in Hong Kong, recruitment of local personnel to carry out the decisions made by the board of directors, recruitment of local talents with appropriate qualifications to carry out the CTC activities etc.

In the operation stage, CTCs are advised to ensure tax compliance including but not limited to filing annual tax returns and employer's returns, maintaining documentation to demonstrate that the CTC is solely dedicated to the conduct of one or more of the mentioned corporate treasury activities, and applying for a Hong Kong Certificate of Residency to enjoy treaty benefits (if applicable).

EY team of highly qualified professionals offers "one stop" expert assistance at each of these three stages.

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[1] "Corporate treasury services" mean any of the following services provided to an associated corporation:

1. Managing the cash and liquidity position, including cash forecasting or pooling, of the associated corporation and providing related advice;
2. Processing payments to the vendors or suppliers of the associated corporation;
3. Managing the associated corporation's relationships with financial institutions;
4. Providing corporate finance advisory service, including (i) activities supporting the raising of capital, such as by way of debt or equity, by the associated corporation; and (ii) capital budgeting for the associated corporation;
5. Advising on the management of the investment of the funds of the associated corporation;
6. Managing investor relations regarding the investors in the debt or equity instruments issued by the associated corporation;
7. Providing service in relation to (i) the provision of guarantees, performance bonds, standby letters of credit or other credit risk instruments to or on behalf of the associated corporation or (ii) remittances to or on behalf of the associated corporation;
8. Providing advice or service in relation to the management of interest rate risk, foreign exchange risk, liquidity risk, credit risk, commodity risk or any other financial risk of the associated corporation;
9. Providing assistance in the merger or acquisition of a business by the associated corporation;
10. Providing advice or service in relation to the associated corporation's compliance with: (i) accounting standards; (ii) internal treasury policies, or (iii) regulatory requirements in relation to treasury management;
11. Providing advice or service in relation to the operations of the treasury management system of the associated corporation;
12. Providing business planning and coordination, including economic or investment research and analysis, for the associated corporation in connection with any of the activities specified in paragraphs (1) to (11).

[2] "Corporate treasury transactions" mean any of the following transactions entered into on a CTC's own account and related to the business of an associated corporation:

1. A transaction in relation to the provision of guarantees, performance bonds, standby letters of credit or other credit risk instruments in respect of the borrowing of money by the associated corporation;
2. A transaction investing the funds of the corporation or the associated corporation in any of the following financial instruments for managing the cash and liquidity position of the corporation or the associated corporation: (i) deposits; (ii) certificates of deposit; (iii) bonds; (iv) notes; (v) debentures; (vi) money-market funds; (vii) other financial instruments (except securities issued by a private company as defined by section 20ACA(2));
3. A transaction in respect of any of the following contracts that are entered into for the purpose of hedging interest rate risk, foreign exchange risk, liquidity risk, credit risk, commodity risk or any other financial risk of the associated corporation: (i) contracts for difference; (ii) foreign exchange contracts; (iii) forward or futures contracts; (iv) swap contracts; (v) options contracts;
4. A factoring or forfaiting transaction.

[3] The prescribed safe-harbour rule requires that both the aggregate amount of the corporate treasury profits and the aggregate value of the corporate treasury assets for a year of assessment are not less than 75% of the total amount of the profits and total value of the assets of the CTC concerned.

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The HKMA has also launched a *Corporate Treasury Centre Case Studies* section on HKMA website, illustrating a wide spectrum of corporate treasury activities being conducted in Hong Kong across different industries.

To view the case studies, please scan the QR code below:

The Invest Hong Kong would also launch some videos in relation to CTCs on its Family Office website, showing how corporates can leverage the Hong Kong platform to centralise their treasury activities and make the most of a CTC.

To browse the website, please scan the QR code below: