

# Corporate Treasury Centres in Hong Kong

## *Case Studies*



**InvestHK**  
The Government of the Hong Kong  
Special Administrative Region



HONG KONG MONETARY AUTHORITY

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# Preface

Asia has become a key source of growth and value creation for many multinational corporations thanks to the region's economic potential. A growing number of global corporates are extending their reach in Asia, while many Asian corporates are also actively investing globally to diversify their Asia-centric business operations. In particular, the Mainland Chinese corporates are adopting a “going-out” strategy by expanding their footprints into international markets. The launch of the “Belt and Road” Initiative further enhances international trade and investments across more than 60 economies in Asia, Europe and Africa. Corporates are exposed to numerous new business opportunities, but at the same time, need to navigate in a complex environment with multiple currencies, regulatory and interest rate regimes. In areas such as obtaining capital, managing liquidity and risks, and processing transactions, an increasing number of corporates are using corporate treasury centres to simplify and centralise their treasury activities.

Over the years, Hong Kong has been an ideal hub for corporate treasury activities. Its strengths include the largest offshore renminbi market, deep capital markets, an extensive network of banks, free flow of capital, a sound legal system, a favourable tax environment and an abundance of professionals. Corporates have always been an important end-user of our financial services. A higher level of corporate treasury activities in Hong Kong will in return further develop our strengths in these areas as well as bolster our status as an international financial centre and deepen



our capital markets. In addition, the development of Hong Kong as a hub of corporate treasury centres complements the headquarters economy in Hong Kong. To encourage a greater level of corporate treasury activities, the Government has amended the Inland Revenue Ordinance to allow, under specified conditions, the deduction of interest expenses in calculating profits tax for the intra-group financing business of corporations, and reduce profits tax for specified treasury activities by 50% for qualifying corporate treasury centres. The Inland Revenue (Amendment) (No. 2) Ordinance 2016 was gazetted and came into operation on 3 June 2016.

This case study booklet illustrates a wide spectrum of corporate treasury activities being conducted in Hong Kong across different industries. Among the nine corporates featured in the case study series, each of them has their own considerations and went through a unique journey to build their own treasury operation. Through these stories, we anticipate more corporates will be inspired to make use of Hong Kong's platform to create their own successful stories in treasury management.

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*Treasury management activities are going to be more technology driven because new trends like in-house banking, electronic bank account management and shared service centres have to be supported by technology.*

*Angus Lai, Treasury Officer of Avnet Asia Pacific*

## Avnet: Treasury operation goes tech

Avnet is one of the world's leading global distributors of electronic components, computer products and embedded technology serving more than 100,000 customers in more than 125 countries. It was founded in 1921 in the United States. Today, it has grown to be a company with a global revenue of over USD 26.2 billion in 2016 and it ranked #380 in the Fortune Global 500 list for the same year.

In Asia Pacific, Avnet has its regional headquarters in Singapore, which supports markets in over 14 countries and regions. To support its design chain and supply chain services, Avnet has seven design centres and eight logistics hubs across Asia including Hong Kong, China, Singapore, Taiwan, Japan, and India.

### **Treasury Management in Asia Pacific**

Avnet has a corporate treasury centre in Hong Kong to support the regional treasury requirements. According to Angus Lai, Treasury Officer of Avnet Asia Pacific, the treasury operation of Avnet can be split into two parts, FX management and cash management. The functions of FX management include FX risk

analysis and FX exposure management, while functions of cash management include cash flow forecasting, cash concentration and short-term financing and investments.

The treasury operation in Hong Kong began 10 years ago. Since then, as the business expanded, constant upgrades on the functions and processing capabilities of the treasury

operation have also been made to meet the changes in the macro environment and needs in financial risk management. These included the implementation of its Treasury Management System (TMS)<sup>1</sup> in Asia Pacific a year ago. Thanks to the use of TMS, the treasury operation of Avnet is highly automated and centralised, which brings financing cost savings, productivity gains, process efficiency, higher transparency in cash availability, better compliance with audit requirements and decision-making. Lai said, *“the TMS created absolute benefits for our treasury activities, for example, cash positioning, financing and investment management, data processing and FX settlement.”* On top of that, to support FX trading activities, Avnet centralises all the FX activities in Hong Kong and has a dedicated platform to connect Avnet with different FX dealers in the market.

### **FX Management**

From Lai’s point of view, FX management is the prime focus of Avnet’s treasury centre in Hong Kong, *“Avnet has definitely been a world class technology distributor of electronic components and services, and any adverse FX fluctuation may erode profit. Therefore, FX management*

*has become a key consideration for the company from a treasury management perspective.”*

Today, most FX management activities from Asia Pacific are conducted in Hong Kong. While some deals still require manual processing due to local regulations, most trades can now be completed by the dedicated FX trading platform. The trade information will be automatically fed into the TMS and Enterprise Resource Planning (ERP)<sup>2</sup> system for post-trade processing, including settlement, reconciliation, creating accounting entries, reporting and analysis. The highly automated operating model allows Avnet to efficiently manage the complex FX requirements in the Asia-Pacific region with just a small treasury team in Hong Kong.

### **Cash Management**

Today, the TMS plays a key role in Avnet’s cash management operations in Hong Kong, especially in cash positioning, cash concentration, cash flow forecasting, and short-term investment and financing. These are all highly automated.

Avnet adopts a multi-layered cash pool where techniques such as notional pooling,

<sup>1</sup> A Treasury Management System (TMS) is an integrated software package that contains various modules tailored for various treasury management requirements, basic ones including financial reporting, banking, investments, hedging, cash and payments, forecasting and liquidity, debt and credit, and risk and compliance. Corporates depending on their requirements can customise their systems for more complex activities. In most cases, TMS is provided by an independent service provider from the transacting parties, thus allowing corporates to integrate the system with various financial institutions.

<sup>2</sup> Enterprise Resource Planning (ERP) system is a system of integrated applications for corporates to manage business and automate back office functions like accounting and human resources. In terms of payments, ERP system provides automated processes to generate files of payment instructions based on the prior procurement processes, and through an encrypted channel between the ERP system and bank systems, delivers the payment files to the banks electronically. This provides great efficiency gain to corporates which are required to manage a large number of payments.

local physical pooling and regional physical pooling are applied depending on regulatory restrictions in different countries.

By using the TMS, Avnet can handle its cash positioning and inter-company transaction recording through SWIFT messages. The automatic process saves time and improves accuracy. *“In the past, we handled the process manually which was time consuming. To ensure accuracy, we had to keep checking the figures with the accounting team. Now, we no longer have to worry about inter-company balance, the interest and the withholding tax because they are handled by TMS. Accordingly, the treasury team can focus more on the strategic*

*side of our work.”* Lai said. *“I foresee that treasury management activities are going to be more technology driven because new trends like in-house banking, electronic bank account management and shared service centres have to be supported by technology.”*

Looking back at Avnet’s one-and-a-half year journey in setting up TMS in Hong Kong, Lai believes the professionals in Hong Kong were one of the key reasons for their success because during the implementation stage, Avnet’s banks and advisors gave Avnet the necessary support in areas such as tax management, system integration, banking product and structure selection.



After the implementation, if Avnet came across any issues in operations that required support, these professionals were a reliable go-to for Avnet. Lai said, *“Although we have dedicated bank officers in every country, the nice part of*

*centralising management is that it is very easy to locate the relevant experts to support our needs, whether in the consulting field or in the banking field.”*

### **What is your advice to new comers setting up treasury centres?**

A corporate treasury centre with a high degree of automation using electronic platforms in treasury management can reduce operating costs, increase efficiency, and assist further development. So, when you go automation, you have to choose the system very carefully because you are going to use it in the next 5 to 10 years. And here are some advices:

1. Gather and confirm the necessary bank account information in each country before you start the project because they may be updated from time to time. This can be done by having close communication with the banks or advisors.
2. Understand the strengths and limitations of each system and see how it meets the company’s requirements.
3. Choose the most flexible system because expansion plans and directions of development may vary from time to time. However, you should strike a balance between flexibility and user-friendliness.

*A corporate treasury centre needs to create value in the process apart from simply concentrating funds.*

*LU Gang, Director and General Manager of CGNPC Huasheng Investment Limited*



## CGN Huasheng: A professional, robust and efficient in-house bank serving global businesses

China General Nuclear Power Corporation (CGN) is a large state-owned enterprise directly supervised by the State-owned Assets Supervision and Administration Commission (SASAC) under the State Council of China, with a business focus on clean energy. CGN was formed in September 1994, and by the end of 2015, the total asset of CGN exceeded RMB 430.7 billion. There are four major business sectors in CGN: Nuclear Power, Nuclear Fuel, New Energy, and Financial & General Services. The group has three companies listed in Hong Kong and actively deploys the “going out” strategy to expand into overseas markets, with businesses all over the world today.

CGNPC Huasheng Investment Limited (CGN Huasheng) is CGN’s only offshore cash management centre and the group’s major overseas financing vehicle. As of end of 2015, CGN Huasheng managed assets amounting to around RMB 24.9 billion.

### The overseas in-house bank for CGN

Today, CGN Huasheng provides a wide range of financial services to the group’s overseas companies, including settlement, cross-border payment, financing and investments. LU Gang, Director and General Manager of CGN Huasheng, said, “*We have two goals when setting up this treasury centre. One is to reduce operating costs; another one is to facilitate transaction processes.*”

On the one hand, as Lu suggested, compared

to Mainland China, the capital markets in Hong Kong are very market-oriented and there is an abundance of banks here. The cost of fund is low and allows the group to reduce its financing cost. CGN first issued its renminbi-denominated bond in Hong Kong back in 2012 – as the second mainland corporate issuing renminbi-denominated bond in Hong Kong. After that, CGN also issued renminbi and USD-denominated bonds multiple times. Lu said, “*We found that the cost of fund is relatively low in Hong Kong. In addition, through the process of*

*debt issuance, we built connections with the local investors and intermediaries in the market and found that the market is very transparent, open and without much restrictions.”*

At the same time, there is no limit on foreign exchange and flow of capital, which is convenient to CGN’s acquisition activities overseas. *“CGN is getting more internationalised with an increasing number of overseas projects. Around 10 years ago, the channel was available, but at that time we did not have any overseas acquisition and each year we only made one or two cross-border transactions. The need was simply not big enough for such conveniences. However, today we have more projects. Whether they are in Africa, Australia or in the Americas, we are investing in larger projects. As a result, there is a much greater need for capital deployment and financing. In addition, we anticipate that in the next several years, we will have large incomes coming from overseas in many foreign currencies, so the group will need to centralise its funds.”*

### **Connections with the Headquarters and group companies**

Despite being under the same group, the headquarters only encourages group companies

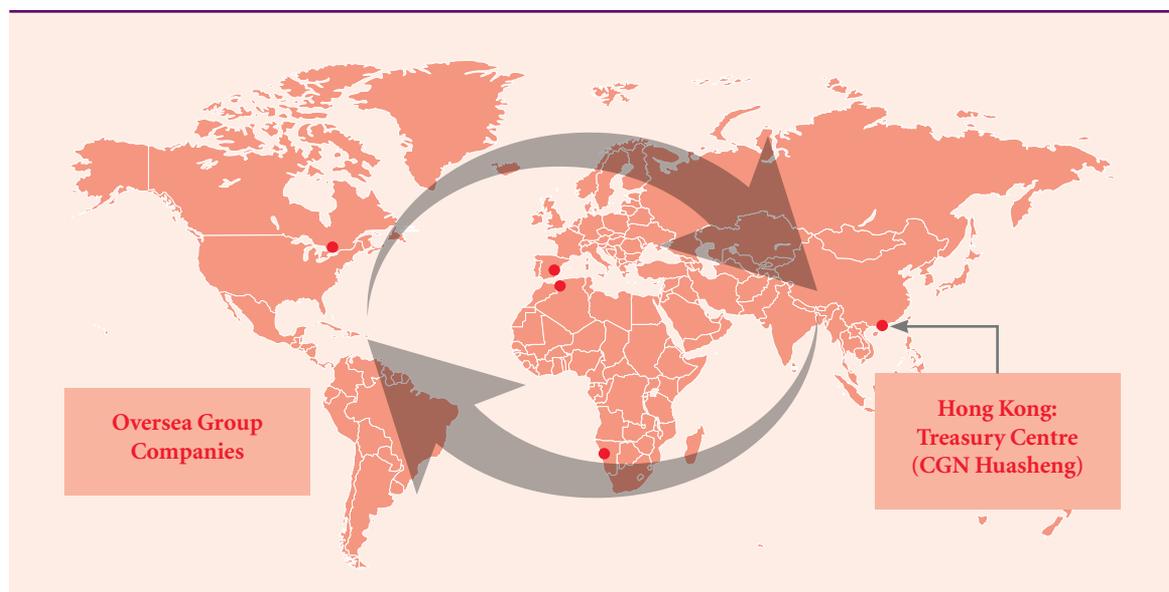
to use CGN Huasheng’s services, but without giving any directive. Lu explained, *“Our operation is very market-driven and needs to create value to group companies. The reason is, if we choose the other path and rely on the headquarters’ authority, in the overseas competitive environment, we will face a lot of resistance from them.”*

Cost is one of the main considerations to group companies. Lu said, *“In order to reduce their costs, we need to scale up our treasury operation and be specialised.”*

In terms of scale, *“given now all treasury activities are centralised, we are in a better position when negotiating prices with the banks. In fact, the banks welcome our efforts to centralise and are willing to reduce the prices.”*

*“Hence, this is our value proposition to the group companies – with a lower cost of capital, we lend to them at a rate lower than what the banks offer. At the same time, as we take their deposits, we give them a higher rate of interest. They will then be willing to move their funds over to us.”*

In terms of professional management, *“we have more than 10 employees dedicated to treasury management. In contrast, for a larger group*



company, there are only at most two to three cash management specialists. In addition, we are more specialised. We have dedicated specialists in areas such as cash management, credit risk management, settlement, clearing and lending. We have been in the business for a long time and have the expertise in policies and regulations as they pertain to different countries. This is what gives us an edge over other group companies. For example, we are familiar with the cross-border cash movement policies in Britain, while the group companies do not transact frequently and sometimes face challenges. This clearly demonstrates our professional qualities.” CGN Huasheng is now also a member of SWIFT, an organisation for telecommunications among financial institutions, therefore it is able to make fund movements and account enquiries efficiently as if it were a bank.

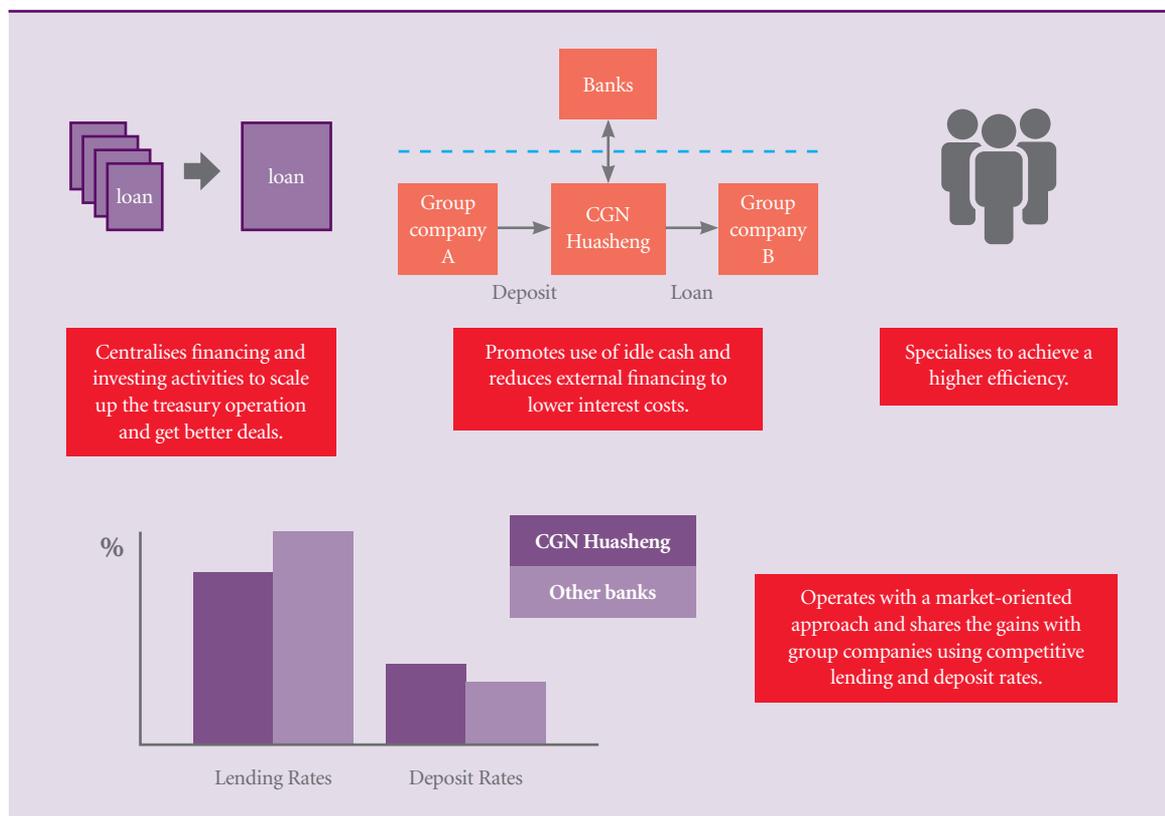
The group benefits greatly from the way its treasury operation achieves a sizeable scale

because of professional management. “We are a profit centre in the group. As group companies reduce their costs of borrowing, the group’s total financing cost is lowered as well. At the same time, as group companies give us deposits or borrow from us, this also promotes the use of idle cash.”

“With a centralised cash management operation in the group, the cash is concentrated under CGN Huasheng and becomes more secure. Some state-owned enterprises experienced security issues with their overseas cash management. Our cash concentration work effectively minimises such risks and enhances the transparency and security level of our cash.”

In terms of the group’s impact over CGN Huasheng’s operation, Lu said, “We have independent judgements. We also communicate with our headquarters from time to time. Our operation relies on the group’s policy, which authorises us to centralise cash. However, this

### How does CGN Huasheng lower the cost of treasury management of the group companies?



*is not mandatory to group companies. If our headquarters requests us to lend to a particular group company, they can always provide us with a guarantee on the loan repayment so that we are de facto lending to our headquarters. In this case, we won't need to worry about the operation risk and solvency of the project."*

### **Hong Kong's Strengths**

Lu pointed out that there are several unique factors that has attracted CGN to set up its treasury centre in Hong Kong. *"Firstly, the regulatory environment of the financial industry is more efficient, transparent, professional and with minimal restrictions to corporates. For example, there is no restriction over capital movements while even in some well-developed countries, moving funds across the border can still be a challenge."*

*"Secondly, it is easier to find professionals in Hong Kong. In addition, the city has an abundance of financial institutions, forming a robust ecosystem. Nearly almost all global financial institutions have their offices in Hong Kong. Whether it is a bank, an investment bank,*

#### **What is your advice to new comers from Mainland China setting up treasury centres in Hong Kong?**

Mainland corporates should make full use of Hong Kong's strengths, including its free flow of information, a transparent and efficient regulatory framework, and an abundance of financial institutions. At the same time, corporates should understand how to make use of all the resources from the group. The ability to combine Hong Kong's unique strengths and offerings coupled with the resources of the group would be key to a successful treasury centre.

*a securities firm, an investment firm or a bond specialist, you can find one easily. "*

*"Thirdly, the information flow in Hong Kong is more efficient and transparent. For all important events over the world, including the ones in Mainland China and Hong Kong, the news is quickly available and accessible. This is very helpful to our investment and business decisions."*

*"Last but not least, our headquarters in Shenzhen is close to Hong Kong. It only takes an hour or so to get back to our headquarters."*

**Founded in:** 2010

**Number of staff:** 11

**Function(s):** Settlement, cross-border payments, financing arrangement, intra-group financing, overseas investments, cash concentration

**Key facts of the treasury centre:**

- As of end of 2015, CGN Huasheng managed assets amounted to around RMB 24.9 billion
- Integrates with the systems of international banks and performs cash concentration, foreign exchange conversion and multi-currency settlement electronically
- Total transaction value reaches RMB 320 billion. Operating loss of the payment operation remains zero
- As a member of SWIFT, the centre can settle transactions with more than 11,000 banks across the world via the network
- Cross-border cash pooling operation approved by the People's Bank of China to facilitate cross-border cash movements

# COSCO Shipping: Hong Kong as a focal point connecting global treasury

China COSCO Shipping Corporation Limited (COSCO Shipping or the Group) is an extra-large state-owned enterprise of China formed by the restructuring of the China Ocean Shipping (Group) Company and China Shipping (Group) Company in 2016.

In terms of the total fleet capacity, COSCO Shipping ranks number one in the world. The Group provides services to clients globally with its network and brand advantages. Aside from shipping, COSCO Shipping also engages in businesses along the industry supply chain including terminal investment and management, integrated logistics, finance, and ship building and repairing to form a fairly comprehensive industrial structure.

## The strategic positioning of COSCO Shipping in Hong Kong

Hong Kong is the most important location for COSCO Shipping's overseas operations outside Mainland China. Major businesses of the Group in Hong Kong include shipping, terminal

investment and management, logistics, container leasing, treasury management and financing. In particular to treasury management and financing, Hong Kong is its key centre for obtaining capital in order to foster the Group's development and overseas expansion. With the



'Belt and Road' initiative, the Group aims to expand its business operations in Hong Kong to meet its strategic development objectives, and build its global treasury management operations based on cash management and financing activities in Hong Kong.

### **Financing operations in Hong Kong**

COSCO Shipping is one of the leading Central Government directly owned enterprises that is active in the capital markets in Hong Kong. In terms of equity financing, the Group already has 5 subsidiaries listed on the Hong Kong Stock Exchange. In terms of debt financing, the Group has also established an overseas financing centre in Hong Kong to coordinate and support the debt financing activities in overseas markets, such as bond issuance, syndicated facilities, and ship financing.

Hong Kong being one of the world's most important financing centres, COSCO Shipping has placed specific emphasis on this market to conduct its capital market activities. This is mainly because Hong Kong has a mature financial market with considerable market participants. The ample liquidity of the markets enables the Group access to low-cost funding easily. The legal and regulatory framework is transparent and stable which allows the Group to execute its financing activities in a clear and controllable manner. At the same time, Hong Kong has a close proximity to Mainland China, and has been a bridge between the country and the international capital markets. The market participants in Hong Kong in general have a deeper understanding about businesses in Mainland China and are more experienced in conducting businesses with companies there. In



essence, the capital markets in Hong Kong have been an important source of funds to support the business growth of COSCO Shipping overseas.

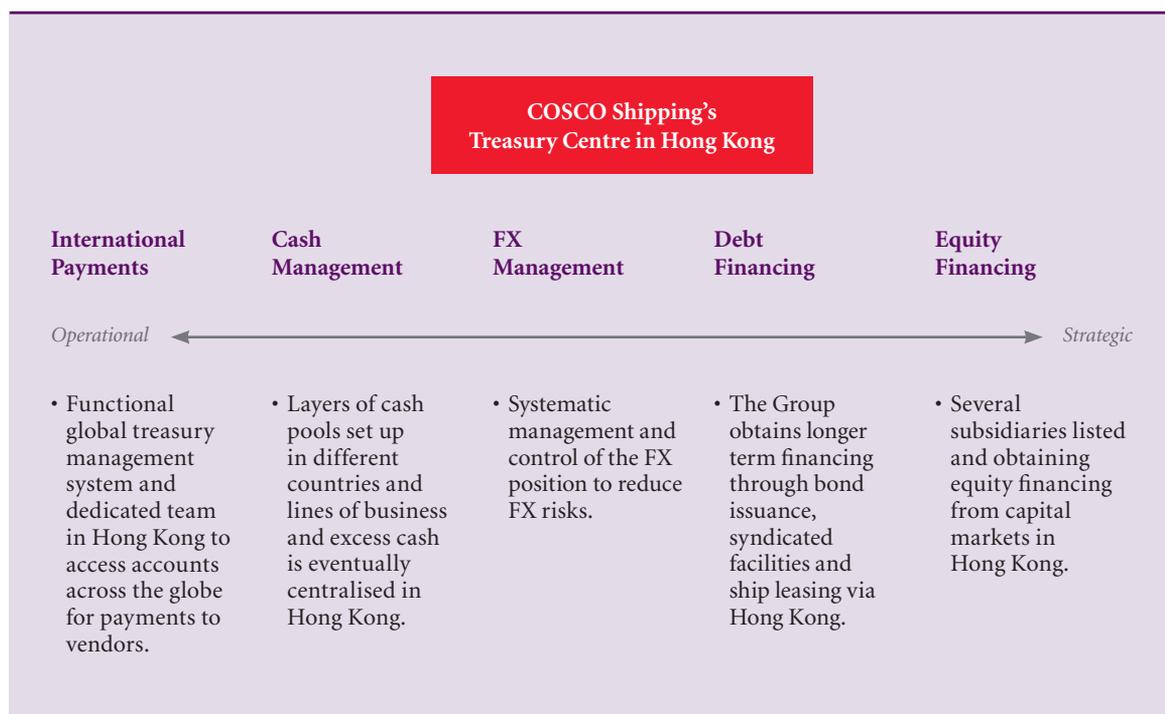
### Cash management operations in Hong Kong

Hong Kong is also the key operating centre for overseas cash management activities for COSCO Shipping. Because of the internal needs and strategic objectives to centralise overseas funds, the Group has gradually built a global cash management system customised to international shipping business with the help of international financial institutions and their advanced global technical networks.

In terms of liquidity management across different countries and business lines, the Group has set up multiple levels of cash pools with specialised management in Hong Kong. Meanwhile, the cross-border cash pooling



### Different functions of COSCO Shipping's treasury centre in Hong Kong



channel between Hong Kong and the Mainland has also been established to enable the sharing of financial resources between the operations in both Mainland China and with those overseas.

COSCO Shipping believes the extensive network of banks in Hong Kong is a key factor to its treasury management activities. The profound banking services provided in Hong Kong plays an important role in the Group's journey of international expansion. In Hong Kong, COSCO Shipping has established long term partnerships with a number of prominent international banks. As such, the city is an important window for the Group to get access to the latest products and services, such as financing, liquidity management or banking technology.

Hong Kong's robust financial infrastructure is another key factor that helps to meet the technical requirements of the Group's global treasury management system. In addition, the abundance of talent in treasury and finance, a mature legal system and a competitive tax environment are other positive factors that ensure the success of the treasury operations in Hong Kong.

In future, COSCO Shipping believes Hong Kong's position as a regional hub for corporate treasury activities will be strengthened with the internationalisation of the RMB and the 'Belt-and-Road' initiative. COSCO Shipping will continue to enhance its treasury operations in Hong Kong in order to meet its strategic development objectives.





*To ensure greater flexibility as our business grew, we wanted to look for alternatives to meet new funding requirements instead of injecting more capital directly into Mainland China like we did before. The regional treasury centre in Hong Kong is our solution.*

*Masashi Takeda, Managing Director of  
Hitachi Capital Management (China) Ltd*

## Hitachi Capital: Financing Mainland China's operations

Hitachi, Ltd. (Hitachi Group) is a Japan-based multinational industrial conglomerate. Founded in 1910, Hitachi Group today has grown into a listed company with eight subsidiaries listed on the Tokyo Stock Exchange as well as 10 major business segments including:

- Information & Telecommunication Systems
- Power Systems
- Social Infrastructure & Industrial Systems
- Electronic Systems & Equipment
- Construction Machinery
- High Functional Materials and Components
- Automotive Systems
- Smart Life & Eco-Friendly Systems
- Financial Services
- Others (Logistics and Other Services)

The group has been on the Global Fortune 500 list for 22 years, and ranked number 79 in 2016.

Hitachi Capital is one of the listed subsidiaries of Hitachi Group with a specialisation in financial services. Leveraging on the robust financial strength of Hitachi Group, Hitachi Capital focuses on providing financing solutions to other group companies and customers in six areas including social infrastructure, environment and renewable energy, vendor financing, auto leasing, healthcare and agriculture, and in particular to Hitachi Group's other subsidiaries.

### Hitachi Group / Hitachi Capital in Mainland China

Hitachi Group sees Greater China as an independent business region and important to the Group's business. As of March 2015, Hitachi Group has operated through more than 200 subsidiaries in Mainland China, Hong Kong and Taiwan. The Group manufactures and sells a wide range of products in the region, including its relatively capital-intensive products ranging

from social infrastructure facilities like water treatment systems to electronic systems such as medical devices.

Hitachi Capital, as the in-house financial service unit of Hitachi Group, has been providing financing support to the group companies' activities in these areas for a long time. Hitachi Capital started its operation in Hong Kong more than 40 years ago and to date has already hired more than 120 employees. In 2005 and 2013, it

further established a leasing unit and a factoring unit in Beijing and Shanghai respectively to strengthen its operations. These platforms enable Hitachi's customers to lease Hitachi equipment, Hitachi's group companies or suppliers to discount trade receivables to improve cash flows in China using customised structures and arrangements.

### **Why does Hitachi Capital need a regional treasury centre in Hong Kong?**

A greater demand for social infrastructure products in China's growing cities has been steadily fuelling Hitachi Group's sales growth. This has led to an increase in leasing activities in the leasing unit of Hitachi Capital in Mainland China.

However, the abundance of business opportunities has not been matched with sufficient capital. From the legacy structure, the leasing unit has its local finance function and obtains loans from onshore financial institutions in China. The challenge is, as Masashi Takeda, Managing Director of Hitachi Capital Management (China) Ltd suggested, *"there are lots of restrictions and processes to go through in order to carry out financing activities in the Mainland, and to keep ourselves more flexible as business size grows, instead of injecting more capital directly into Mainland China like before, we wanted to search for alternatives to meet the new funding requirements."*

Hence, Hitachi Capital decided to build an offshore treasury centre to source additional funding support. The centre would obtain syndicated loans from banks in Hong Kong, and then lend to the leasing unit through cross-border intra-group lending. Recently, a key step has been made when Hitachi Capital established a new company, Hitachi Capital Management (China) Ltd (HCM) in Hong Kong to act as the

region's treasury centre. HCM would provide funding support to both the leasing company and factoring operation.

In addition, the company will support the re-invoicing activities for other Hitachi's group companies for any cross-border trading transactions using Hitachi High Technologies Hong Kong Ltd (Hitachi High Technologies) as a trading agent. For example, a group company in Mainland China exporting goods can first sell to Hitachi High Technologies in Hong Kong and receive sales proceeds upfront with interest cost deducted. Next, Hitachi High Technologies will sell to the final buyer and discount the receipts with HCM in order to have the cash for payment to China. HCM will then receive the final payment from the buyer on the settlement date. This would allow the group company to receive the cash earlier and improve its cash conversion cycle<sup>1</sup>. As Takeda explained, *"Our group companies are excellent in manufacturing high quality products. To support their manufacturing function, our job at HCM is to help them monitor their cash flows closely."*

HCM will also be a key coordinator on various financing projects for Hitachi Capital's operations in China. While local offices in Beijing and Shanghai will focus on sourcing new financing deals within the group, HCM will structure the optimal solution for financial support and financial arrangements, such as syndicated loans or project financing and finally obtain final approval from the headquarters in Japan.

### **Why Hong Kong?**

After considering a number of factors, Hitachi Capital believes that moving its regional treasury function to Hong Kong from Mainland China best serves the company's strategy in expanding operations in China. Takeda said, *"Hong Kong is a very advanced and mature financial centre."*

<sup>1</sup> Cash conversion cycle (CCC) measures the length of time (in number of days) that a company takes from spending cash for procurement of production inputs to collecting cash from customers.

A stable legal and regulatory framework is a key factor for consideration. Hitachi Capital is driven by long-term operational sustainability, and needs to be in an environment consistently compatible with contracts and agreements signed with financial institutions, and cross-border funding arrangements.

Takeda also found that the legal and financial professionals in Hong Kong are very competitive and helpful. For example, during the time of setup, the company benefited greatly from advisory services provided by their partner banks on areas such as designing holding structures for the companies, tax position optimisation and regulation compliance in Japan, Hong Kong and Mainland China. He said, “*Since banks have*

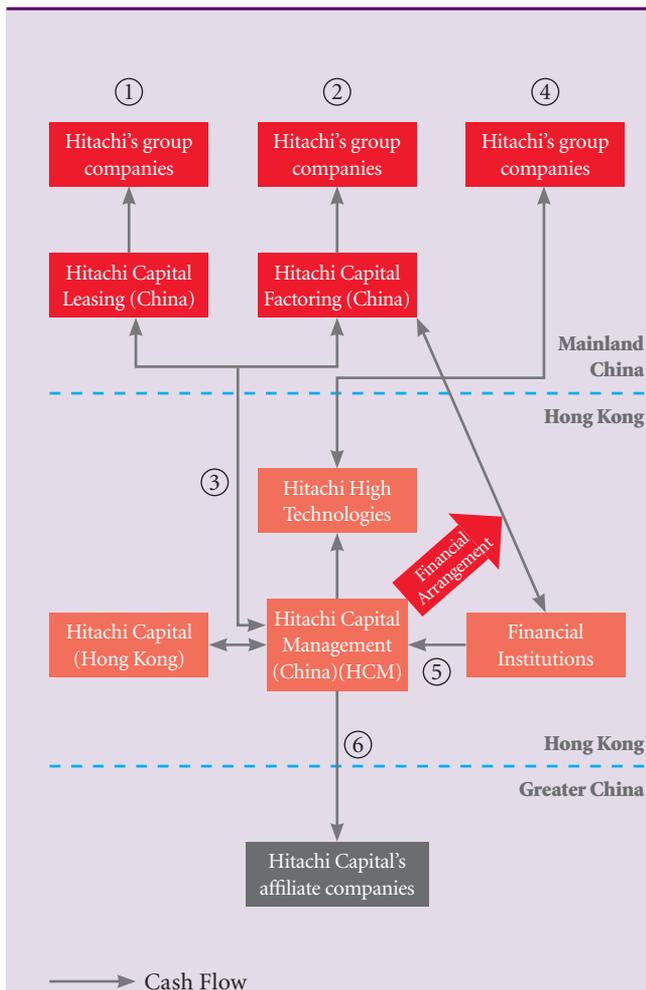
*more knowledge in the financial products and structures, we have been closely communicating with our partner banks.*” In general, he found that the implementation is straight-forward, “*it is a simple process to incorporate a new company in Hong Kong.*”

He also mentioned that the company considered some other possible options of location, but he recognised that “*Hong Kong is more suitable, given that it is the gateway to Mainland China.*”

### Next Steps

Under current plans, HCM will become the holding company of all Hitachi Capital’s subsidiaries in Mainland China, and Hong

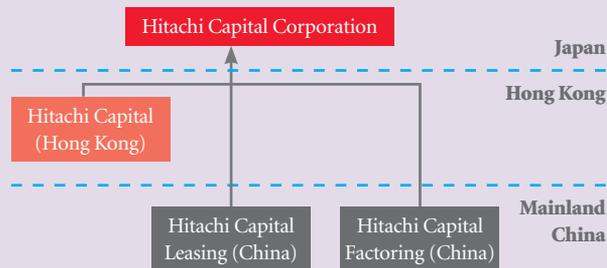
## Using Hong Kong to Support Financing Requirements of Hitachi’s Mainland China Operations



- 1) Group companies of Hitachi China that distribute the group’s social infrastructure products or healthcare systems usually need to provide different financing options to the customers. Hitachi Capital Leasing (China) has been the in-country focal point for group companies to obtain financing through different lease structures.
- 2) Group companies involved in manufacturing or trading in China seek to shorten their cash conversion cycles and discount their local receivables with Hitachi Capital Factoring (China).
- 3) HCM is the Hong Kong entity that makes financial arrangement for syndicated loan, and project finance and lends to the leasing unit and the factoring unit through fixed-termed cross-border intra-group financing and receives interest income. It is also the holding company of the two entities and receives dividend payments.
- 4) HCM purchases cross-border receivables through Hitachi High Technologies and it functions as the collection agent for re-invoicing activities and discount their cross-border receivables.
- 5) HCM primarily borrows from the Hong Kong branches of the partner financial institutions.
- 6) HCM may deploy the dividend and interest income received to other group projects in the Greater China markets through minority equity investment.

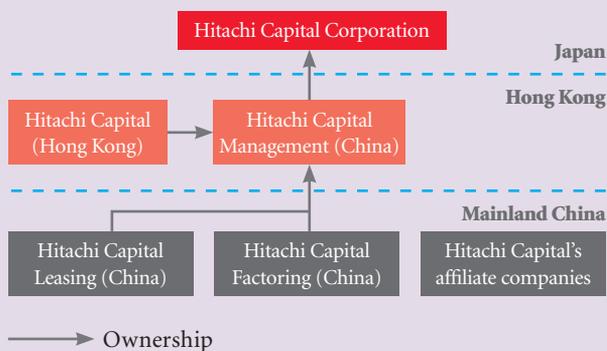
## New Corporate Holding Structure

### The original ownership structure



- In the original holding structure, Hitachi Capital Corporation in Japan holds both the group's leasing unit and the factoring unit in Mainland China directly.
- The operating units in Mainland China obtain financing from the financial institutions in Mainland China.

### The new ownership structure



- In the new holding structure, Hitachi Capital Corporation in Japan owns Hong Kong-based Hitachi Capital Management (China) which will become the headquarters of Hitachi Capital's operations in Mainland China and Hong Kong.
- Hitachi Capital Management (China) becomes the direct owner of both the group's leasing unit and the factoring unit in Mainland China. It also provides financing through cross-border intra-group financing.

Kong will act as the regional headquarters. HCM will receive dividends and interest income from its Chinese operations and will be able to reinvest those incomes to other regions. Compared to previous arrangements, where the cash flows needed to be routed through the headquarters in Japan, this allows Hitachi Capital to be more efficient and nimble when deploying capital to other projects. As Takeda mentioned, *“Hong Kong is well-positioned in terms of tax. For example, the withholding tax rate for our dividend income from China will be reduced to 5% going forward.”*

Takeda added, *“After the completion of the restructuring, we will consider using Hong Kong for more business functions beyond just financing, these would include business management functions to support our business in Mainland China.”*

### What is your advice to new comers setting up treasury centres?

Business need is a key consideration. Hong Kong is an ideal place in case your corporate treasury centre needs to support a sizeable operation in Mainland China. Other considerations include tax, a good legal system, and the availability of financial professionals, and Hong Kong is one of the world's leaders in all these aspects.

**Founded in:** 2016

**Number of staff:** 2

**Function(s):** Capital Investment, Equity Finance, Finance Arrangement



*Our people in the core business do not need to be concerned with treasury issues. When it comes to funding our expansion in this region, treasury works for the core business to secure their funding needs in an optimal way with minimum local effort.*

*Raj Rai, Managing Director  
IKEA Asia Treasury Centre Ltd*

## **IKEA: Internal banking function for the Asian subsidiaries**

The INGKA group of IKEA companies<sup>1</sup> (“IKEA group”) is an international retailing group that exclusively sells ready-to-assemble furniture and home accessories. Founded in 1943 in Sweden by Ingvar Kamprad, IKEA today operates 340 stores in 28 countries and 53 shopping centres and retail parks. On top of that, 11 shopping centre developments are currently underway in IKEA’s existing markets<sup>2</sup>, while another 14 new stores are slated to open in 2017. Three existing stores will also be re-located.

### **The Role of Regional Treasury**

IKEA’s group treasury function is centralised in Europe in two principal offices, in Brussels and Dublin. The group treasury’s function is to manage all the group’s financial risk and to perform as an internal bank for all the operating companies.<sup>3</sup> The regional treasury centre in Hong Kong is therefore an extension of the group treasury function.

Raj Rai, Managing Director of the IKEA Asia Treasury Centre Ltd explained: “We *divide the*

*work of the internal bank function into three regions, with two (Europe including Russia and North America) served by the treasury offices in Europe. We are the remaining treasury company covering the Asia-Pacific region (including Mainland China). Our primary role is to channel funds and lend money to our operations for their working capital and expansion needs. As IKEA buys its land (it never rents or leases) and builds its own stores, the funding needs are significant.”*

At an operational level, each country runs a local cash pool and borrows from the regional

<sup>1</sup> The INGKA group of IKEA companies operates IKEA stores under franchise agreements with Inter IKEA Systems B.V., the owner of the IKEA Concept and the worldwide IKEA franchisor. Inter IKEA Systems B.V. is based in Delft in the Netherlands and is owned by Inter-IKEA Holding BV of the Netherlands. Group. Inter-IKEA group and INGKA group are two legally independent groups of companies with no common ownership or management.

<sup>2</sup> In Asia Pacific, the IKEA group owns the stores in Australia East, China, Japan, South Korea and India (starting in 2017). The IKEA stores in Australia South West, Hong Kong, Indonesia, Malaysia, Singapore, Taiwan and Thailand are owned by other independent franchisees.

<sup>3</sup> An integrated group treasury function centralises all the treasury functions, including centralised financial risk management (liquidity, currency, interest rate & credit risk), funding, capital structure management, netting & payments.

treasury centre when funding requirements arise. The regional treasury staff regularly visits the country finance teams to coordinate any financial and liquidity planning.

Rai has worked for IKEA for more than 20 years, starting in Europe. *“I joined IKEA in the 90s and took a number of roles in treasury and also outside the treasury field – but still within IKEA. I moved to Hong Kong in 2008. At that time, there were only four stores and we were preparing for a rapid expansion plan in the region – in spite of the global financial crisis. I believe I am one of many experienced IKEA people in many areas of expertise that moved to Asia at that time to enable things to be set up in ‘the IKEA way.’ Today it is really satisfying to see that we are approaching 40 stores and have three huge shopping centres in Mainland China with another just approved for construction. The Asia-Pacific region continues to be the fastest expanding region within IKEA given the shift in economic weight to this part of the world, with of course India to come. It is fantastic to be part of that journey.”*

### **Supporting the expansion strategy**

As mentioned by Rai, IKEA adopts a very different approach from other retailers. *“One of the key differences is that our stores are very large in order to hold a huge inventory and suitable showroom space. A typical IKEA store occupies more than 40,000 sq. metres. Also, every time we build a store, we buy the land. So, each time we build a store an investment of around USD100 million is not unheard of these days, which is a much greater investment ticket than other retailing groups that will always rent or lease. We consider this a competitive advantage and enables us to focus on the longer term – as we are immune to fluctuations in commercial rents and the demands of commercial landlords.”*

He said, *“To us, our job is all about making sure the countries’ cash flow forecasts are as accurate as possible so that funding can be delivered in an optimal way to meet the business needs. IKEA has never had a liquidity crisis, and as a key policy the treasury must always maintain a cash buffer to cover all operational and planned expansion needs. The business people in the countries never*

*need to be concerned about the financing of an approved commercial project – when they want to buy a piece of land and build a store, we are on top of the plan.”*

Rai explained that for each country the treasury team runs a weekly rolling 3-month cash flow forecast using the direct method<sup>4</sup> and a 3-year rolling annual cash flow forecast using the indirect method with inputs from in-country finance and business navigation teams. *“The two forecasts are combined to give us a good plan of how much funding we need to provide to the countries, both short term and longer term. Of course, we need to control the short term fluctuations. So generally on a weekly basis there are around 10 to 20 funding transactions using short-dated FX swaps, and the number varies from time to time. In addition, there will be longer-termed funding requirements, for example, for land purchase or construction, or where we see it is optimal from an after-tax cost of funding view, that we should repay the legacy bank debt. Each month we can have two or three tickets with this size. Recently, we did a yen cross-currency swap with a notional amount of 30 billion yen.”*

### **Harnessing treasury products to minimise currency risk in the core business**

IKEA’s investment in each country is denominated in local currency. Currency risk management becomes a key consideration when IKEA funds its operations. *“We actively hedge all FX risk through identifying exposures and managing the risk accordingly. Our job is to reduce the volatility of the business’s bottom-line, but not to add speculative risk. We cannot run a treasury operation without stringent treasury policies and having people with the right (IKEA) values.”*

As IKEA uses swap contracts to hedge the risk from the funding transactions to in-country operations, Rai goes on to say *“we always have two or three banks on the line to give us pricing. IKEA takes a relatively unique approach in that we use competitive pricing heavily. It is a legacy left behind by the initial group treasury staff who all came from a corporate or investment banking background in the company’s formative*

<sup>4</sup> In cash flow forecasting, the **direct method** sums up all the identified cash inflows and outflows in a certain period to give a snapshot of the cash position to the period end – hence its usefulness for short-term forecasting. In contrast, with the **indirect method**, the cash position of the period end is estimated based on projections of revenue and expenses using % assumptions about revenue growth, margin & costs built on the statutory income statement & balance sheet, and the future capex needs of the business. Hence it is more suited to longer term forecasting (over one year).

years. The practice is so entrenched now that the banks treat us like professional counterparties, and often we will talk to the institutional desks at the banks for our pricing rather than the corporate desks.”

Mainland China is obviously the key growth engine for IKEA for the past few years, thanks to the country’s huge population and increasing focus on consumption. For renminbi hedging, “we still predominantly hedge the currency using the offshore market. As an offshore entity, we are not able to participate in the onshore foreign exchange market in Mainland China. So far, I would say the CNH market in Hong Kong is the most liquid. It has good accessibility and settlement practices. Earlier this year

there was one tremendous squeeze in the market because of the unexpected devaluation of the renminbi. It was a good test to see how the market would behave. And since then, the People’s Bank of China (PBoC) have improved their communication to the markets, and also significantly increased their swap lines into all the offshore CNY markets to improve liquidity, and things have been good so far.”

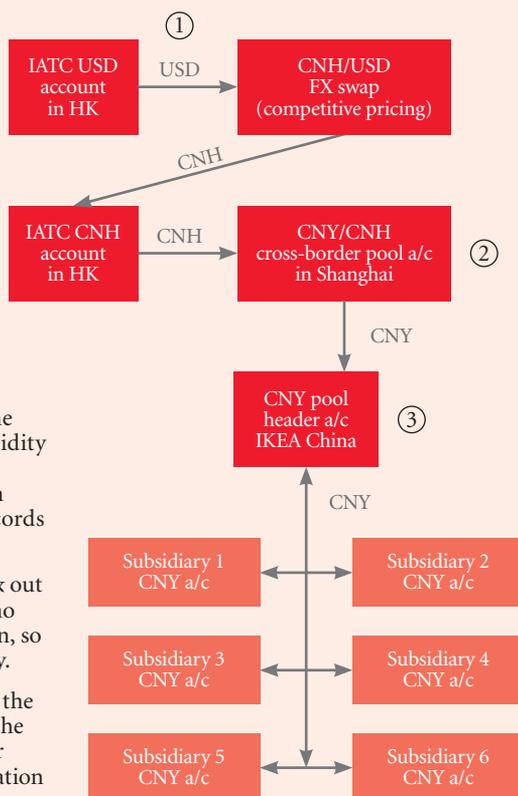
### Building the cross-border channel

Riding on the trend of renminbi internationalisation, IKEA has established a cross-border manual sweep channel between Hong Kong and Shanghai. With the channel, IKEA can fund the renminbi cash pool in China

### IKEA Asia Treasury Centre (IATC) – cross-border CNY/CNH pool account operations

According to Rai, the advantage of operating a cross-border pool account with IKEA’s China operations is that all flows through the account are free of any of the State Administration of Foreign Exchange’s (SAFE) regulatory requirements and do not impact the foreign debt quota that restricts the amount of cross-border funding that is permitted. To obtain pre-clearance of the cross-border pool account and its usage, working with a bank with an expertise in this area is a vital factor. The local treasury team of IKEA China has also built up a great relationship with the Shanghai Branch of the PBoC, which also helps.

- 1) IATC as the regional treasury centre in HK receives the funding requirement for China, and uses its USD liquidity to enter into a CNH/USD swap matching the period of funding desired by IKEA China. The CNH are then transferred to the CNH/CNY pool a/c & the IATC records an intragroup loan to IKEA China.
- 2) The cross-border pool a/c in turn has a sweeping into & out of the CNY pool header a/c of IKEA China. There are no SAFE documentation requirements for each transaction, so simplifying short term funding into China significantly.
- 3) From the pool header a/c to IKEA China’s subsidiaries, the usage of funds in CNY are now fully fungible. Within the pool a/c structure, entrustment loans are booked as per local requirements – an important additional consideration on the accounting side (inter-company reconciliation).



#### Key learnings:

- IKEA engaged its banks early to understand any regulatory changes.
- IKEA obtained pre-clearance from PBoC for the operation of the special pool account before starting operation. The company has built-up a good relationship with the regulator and has been seen as a respectable brand and long term investor in China.

using CNH/EUR and CNH/USD swaps (the regional treasury centre recently converted its equity and functional currency to USD).

Rai recalled the set up process, *“Over time, we built a very good relationship with the PBoC in Shanghai. One of our main banks helped a lot in the discussion. We have also been seen as a quick adopter of regulatory change. For example, we did the first cross-border renminbi spot transaction for trade settlement and was one of the earliest companies to give foreign-sourced funding to IKEA China in RMB. Another key contributing factor is that we are a brand with an outstanding reputation, and we are considered a long term investor in a country. IKEA has never exited from a country and instead, we provide a lot of jobs and meet a lot of home furnishing needs.”*

### **What is your advice to new comers setting up treasury centres?**

Corporates should assess both the business factors and softer factors. By business factors, I mean the ease of setting up entities, making cross-border capital injections, building banking relationships and getting support from tax advisory, audit, accounting and legal services. By soft factors, I mean environmental issues, cost of living, lifestyle and culture – and usage and expertise of English. All treasury operations should recognise that their key people tend to be more mobile than most, so we have to pay attention to the soft factors. There are always strengths and weaknesses in every credible offshore centre – including reputation – and corporates should assess these factors comprehensively, and on an on-going basis.

### **Looking forward**

Rai sees Asia as still full of dynamism and IKEA’s expansion in its countries will continue. *“We have three to four new stores in Mainland China every year, and only one store so far in South Korea which is already our top-selling store globally – so we need to go much faster in Korea. And then the first store should open in India next year (Dec-2017) and other land deals are going through to enable the construction*

*of three to four stores very quickly. So we are anticipating a much bigger loan book in the region. In addition, despite being a euro-based company, we are switching our balance sheet to USD-denomination to gain greater liquidity in the CNH swap market and as part of a group translation hedging need.”*

*“Using our own funding into India is particularly challenging. Recently, with the new policies of Prime Minister Modi’s government, we are using a new instrument, the Masala Bond, to fund our onshore operations. Under the structure, the local retail company will issue an INR bond which is USD-settled, and the Hong Kong regional treasury centre will be the sole investor and will hedge the currency risk in the non-deliverable forward market offshore. We can do this intercompany lending here in Hong Kong because under the bond regime, Hong Kong companies can also enjoy the 5% withholding tax concession rate on the interest income payable by the local entity. At this time, we are working to conclude the documentation to meet the regulatory requirements, which is quite challenging as we rarely use the debt capital markets given the amount of excess financial liquidity we have on the IKEA group’s balance sheet.”*

### **Strategic location of Hong Kong**

Hong Kong is pivotal to IKEA’s treasury operations in Asia. Rai said, *“Hong Kong is located at the centre of our operations geographically, and the regional supply chain centre was here since the 1980s when it was part of the INGKA group. Before we moved to our new office, we were actually sharing space within the supply chain office. But with the supply chain and sourcing activities being sold to Inter-IKEA as the franchisor, we have had to move to our own office. The long history we have with Hong Kong means we are very comfortable with this city.”*

*“In addition, if you consider the ease of setting up new entities, making capital injections, building bank relationships or getting support from tax advisory, audit, accounting and legal services, Hong Kong would definitely be leading. Having said that, IKEA does refresh its review on Hong Kong against Singapore and other locations in the region periodically. Business and non-business factors such as rents, equalities, education, traffic management and air quality will be taken into account.”*

*Hong Kong is geographically close to our key operations in the Greater China region, has a highly efficient financing platform (from both equity and debt perspectives) and allows for the free flow of capital, these factors put together make it the ideal place for our corporate treasury setup.*

*Eddie Mak, Group Treasurer  
Kerry Logistics*



## **Kerry Logistics: Treasury management supporting corporate strategy development**

Kerry Logistics Network Limited (“Kerry Logistics”) is Asia's leading logistics service provider with extensive operations across Greater China and the ASEAN region. The company operates through two major business segments, namely integrated logistics and international freight forwarding, to provide highly customised solutions to multinational corporations and international brands across a spectrum of industries. With its head office in Hong Kong, Kerry Logistics has more than 550 office locations in 40 countries and territories, supported by an agency network across six continents. Kerry Logistics is a member of the Kuok Group originating from Malaysia. The company used to be a wholly-owned subsidiary of Kerry Properties Limited, and was spun-off and listed on the Hong Kong Stock Exchange in 2013.

### **Requirements from corporate strategies**

To support key operating subsidiaries in the Greater China region, Kerry Logistics’ corporate treasury is based in Hong Kong. Eddie Mak,

Group Treasurer of Kerry Logistics, explained that the company’s strategies has helped to shape how the treasury activities are organised in Hong Kong.

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*“Kerry Logistics started as a warehouse owner and operator in Hong Kong since the 1980s. In 2000, it expanded its scope of business to integrated logistics, offering customers total supply chain solutions. Integrated logistics is now our business mainstay, contributing to over 75% of the group’s net profit. We provide our clients with warehousing, inventory management, distribution, returns management and a wide range of value-added services, such as packaging and pre-sales processing. We have adopted a strategy that allows us to maintain a portfolio of owned and rented facilities so as to strike a balance in providing clients with longer term service commitment and maintaining flexibility for business expansion. Kerry Logistics is a strong brand name in Asia Pacific but not so much in western countries such as the US and Europe. This poses certain challenges for us when pitching for integrated logistics business in these countries.”*

*“We have been actively expanding our international freight forwarding business in the past decade. Our strategy is clear. By building a franchise in international freight forwarding in the western world, we can establish a global network to better serve our clients and promote our brand name in western countries so as to achieve cross-selling of our integrated logistics business in Asia.”*

Kerry Logistics has acquired quite a number of

logistics service providers globally to strengthen its network. This raises two questions for corporate treasury, *how to fund the acquisitions* and *how to integrate the acquisitions*.

### **Funding the acquisitions**

Mak said that Kerry Logistics is in an advantageous position to source funding, *“Our warehouse business in Hong Kong (being a sub-division under integrated logistics segment) is a cash cow which gives us strong financial support to our overseas expansion. Our group also maintains close relationships with multinational banks in Hong Kong which enables us to access bank financing in an efficient and cost effective manner.”*

Apart from mergers and acquisitions, Kerry Logistics has continuously incurred capital expenditures to expand its logistics centre portfolio in strategic locations around the region, as well as maintenance expenditures to upgrade its existing facilities in order to better serve our clients.

Corporate treasury also plays an important role in the acquisition process of a deal execution. *“Making a payment upon closing looks simple, but it involves many strategic considerations including, but not limited to, tax, regulatory environment and foreign exchange control (if any) of the target jurisdiction. Therefore, we have to maintain close communication with the deal team and the advisers (legal and tax) to structure*

*an optimal ownership and capital structure that can attain the best result.”*

### **Integrating the acquisitions**

While acquisitions complement the group’s global network, it also poses challenges for its operation management. As Mak said, globally, Kerry Logistics serves clients through nearly 200 subsidiaries. In addition to this, due to the nature of the international freight forwarding business, huge volumes of intra-group transactions occur every day and are denominated in a number of currencies. It is therefore crucial for Kerry Logistics to revamp its operation process for higher efficiencies.

*“Each of these transactions may only amount to several tens of thousands of US dollars. However, the transaction volume is massive. To reduce the number of bilateral transactions within the group, we launched a netting arrangement (being a module of our Treasury Management System (TMS)), which allows subsidiaries to match their intra-group transactions automatically in the system, and to settle with the netting centre on a monthly/quarterly basis. This enables the group to centralise its foreign exchange exposure in Hong Kong for group risk management purposes and at the same time reduce the group’s transaction costs”*

*“Bank account management is another challenge. Along with acquisitions in recent*

*years, we are managing around 1,800 accounts globally. Keeping track of these bank account activities is of utmost importance for internal control. Therefore, we have subscribed a TMS to improve our bank account visibility. Banks send SWIFT MT940 messages which contain the prior day’s bank account activities and bank balances to the system. At first, it took us quite a while to cover those countries/subsidiaries with significant cash contributions to the group, but now, our bank account management process has become more streamlined.”*

Providing support to foreign subsidiaries’ operations is another key task for corporate treasury. *“Foreign subsidiaries may require funding support as daily working capital and to issue bank guarantees to suppliers (airlines, shipping companies, etc. to guarantee their payment obligations). Depending on tax and exchange control considerations, corporate treasury will consider either providing inter-company financing directly, or work with relationship banks to arrange credit facilities to those subsidiaries. With the listing vehicle as guarantor, subsidiaries will be able to access banking support at reasonable cost.”*

### **Location consideration of the treasury centre**

As Mak suggested, setting up corporate treasury in Hong Kong is a logical choice. *“We have a strong presence in the Greater China region and our global management team is based in Hong*

*Kong. From the management's point of view, it is better to have corporate treasury staying close to management and to the business for better decision making. Hong Kong is geographically close to our key operations in the Greater China region, has a highly efficient financing platform (from both equity and debt perspectives) and allows for the free flow of capital, these factors put together make it the ideal place for our corporate treasury setup."*

*"We have considered other cities in Asia Pacific for a treasury centre. However, they may require a treasury centre that has substance in its physical operation which may involve additional overheads to the group. Therefore we finally picked Hong Kong as our treasury centre because of its close proximity to the key operating region and group management."*

**Founded in:** 2012

**Number of staff:** 5

**Function(s):** Financing, intra-group financing, FX management, cash management, bank account management, credit control

**Key facts of the treasury centre:**

- Manage a level of liquidity equivalent to HKD 600MM
- Using a Treasury Management System (TMS) / Enterprise Resource Planning (ERP) system integrated with relationship banks' IT systems
- Raised more HKD4 billion bank facilities in Hong Kong

# LyondellBasell Industries: Moving towards operational excellence step-by-step

LyondellBasell (NYSE: LYB) is one of the world's largest plastics, chemical and refining companies and a member of the S&P 500. LyondellBasell manufactures products at 57 sites in 18 countries. LyondellBasell products and technologies are used to make items that improve the quality of life for people around the world including packaging, electronics, automotive parts, home furnishings, construction materials and biofuels. In 2007, Basell AF and Lyondell Chemical Company merged to become LyondellBasell Industries. LyondellBasell currently has corporate administrative offices in London, Rotterdam, Houston and Hong Kong.

In Asia, LyondellBasell's major business is polymer and chemicals trading, and it has an extensive distribution network to support the business. Hong Kong serves as the company's headquarters for Asia Pacific and a regional sales centre. In terms of footprint, the company actively operates in China, and also other Asian countries including South Korea, Japan, Singapore, Indonesia, Philippines, Australia, New Zealand, India and United Arab Emirates. Other than that, LyondellBasell also owns a number of manufacturing plants in China, Thailand, and recently, India, for the Polypropylene (PP) compounds business which provides customised chemical products for customers' specific requirements.

## Treasury in Asia Pacific

In order to support headquarters' operations, Hong Kong is a logical choice for LyondellBasell's treasury centre. Ethel Yu, regional treasury manager of LyondellBasell Asia Pacific said, *"Treasury management is a supporting function within our organisation. Since our Asia Pacific business management team is based in Hong Kong, a treasury set up here becomes very natural. In fact, as other regional headquarters functions are also centralised in Hong Kong,*

*treasury can communicate and coordinate with them on various issues efficiently."*

LyondellBasell has a lean and efficient operating structure and its treasury management is no exception. Today, a team of two is responsible for the company's treasury operation in Asia Pacific. In Yu's point of view, process simplification and standardisation are the keys to operational excellence in treasury. She said, *"By having one single integrated system to handle all the processing work electronically,*



*once our key bank feeds all the account information into the system, we can quickly figure out our cash position. In addition, when we process our payments, with a centralised system we can at the same time use the data for our cash flow forecasts. In this case, a small team is enough for our treasury operation.”*

### **Challenges in Treasury**

That being said, in practice, there are always challenges and exceptions that limit a corporate to be fully centralised. To Yu, the biggest challenge is the availability of data. Yu said, “We need to have the full set of information

*for a centralised and standardised operation. The process would just fail to operate normally if the information of some accounts or some transactions is missing.”*

After the merger, the newly established LyondellBasell faced certain challenges in treasury operations. Yu recalled, “We inherited a lot of legacy systems and a long list of processing banks. It was quite difficult to exercise control over the accounts. For example, one of our subsidiaries in Mainland China was actively using an account opened with a local bank. The headquarters in Hong Kong faced challenges when trying to reach the local branch to obtain

***As other regional headquarters functions are also centralised in Hong Kong, treasury can communicate and coordinate with them on various issues quite efficiently.***

***Ethel Yu, Regional Treasury Manager of LyondellBasell Asia Pacific***

account information.” In addition, not having a single system across the operation means that the treasury team needed to handle many redundant processes.

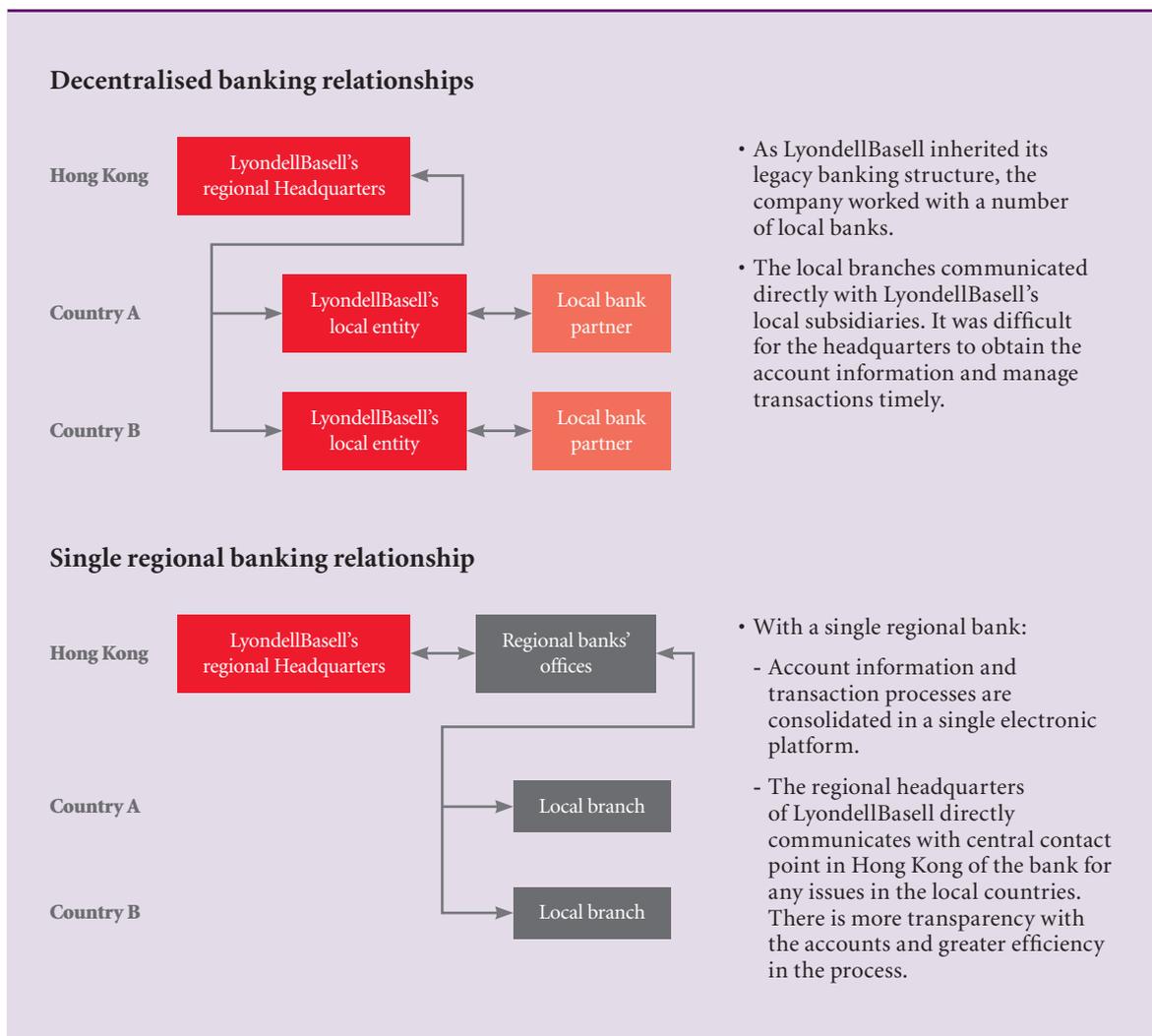
### A step by step solution

The challenges led to an internal study three years ago, through which LyondellBasell reassessed all the treasury workflow, processes, systems and banking arrangements in Asia Pacific. Yu said, “We asked ourselves a lot of questions. For example, we reviewed the functions of every

legal entity in each country, what accounts were owned by each entity, and how they were being used.” As a result of the study, the company developed a plan to simplify the entire setup and appointed a close banking partner to implement the changes. “A regional bank was critical to our streamlining project. Our bank knew our needs and the exposure we had. It also provided us with useful advices on how the structure should be like,” Yu said.

The bank set up a regional cash pool in Hong Kong for LyondellBasell. Most Asian subsidiaries

### Why did LyondellBasell consolidate its banking relationships in the region?



have now participated in the cash pool. Every day, there are vendor payments and customer receipts in the accounts of the local subsidiaries in different countries. Before day end, the bank automatically transfers all credit and debit balances across the region to the centralised cash pool in Hong Kong.

In terms of processing, most transactions are now recorded on the company's Enterprise Resource Planning (ERP) system. Yu said, *"With the system, local businesses and the treasury become more integrated with each other. For example, for a vendor payment, once the local team uploads the relevant information on the system, the information will be automatically reflected in our cash forecasting reports."*

### **How does a treasury centre in Hong Kong benefit LyondellBasell?**

Hong Kong has long been a strategic outpost for LyondellBasell. According to Yu, even before the merger, the two companies had built sizeable operations in Hong Kong to support their business focus in Mainland China. In addition, Yu recognised that Hong Kong is in an advantageous time zone. *"LyondellBasell has a regional business and the headquarters in Hong Kong can cover the business from Australia to Dubai holistically."*

Yu also said, *"The friendly regulatory environment here is critical. Our experience of setting up cash pools in Hong Kong is clearly easier with much less documentation than*

*other countries such as Mainland China. There is also no withholding tax on interest."*

*"Talent is another key factor. In Asia, there are not many places that can provide such an abundance of finance and professional talents like Hong Kong."*

### **What is your advice to new comers setting up treasury centres?**

It is important to fully understand the company's business requirements in order to choose a location for the treasury centre. That is to ensure that the core business is getting the most benefits from it.

#### **Number of staff: 2**

#### **Key facts of the treasury centre:**

- Manage a level of liquidity over USD 50MM
- Using Treasury Management System (TMS) / Enterprise Resource Planning (ERP) system
- Manage all banking relationship in Asia

*When you put this into business context and consider where our sales offices and factories are, Hong Kong becomes a really good choice.*

*Amit Singh, Group Treasurer of Newell Brands Inc.*



## Newell Brands Inc.: integrating treasury with business operations

Newell Brands Inc. (Newell) was formed by a merger between Newell Rubbermaid and Jarden Corporation, and is a leading global consumer goods company with a diverse portfolio of well-known global brands. Originated from a company named “Newell Manufacturing Company” established back in 1903, Newell has gone through a series of mergers and acquisitions over the years and has now grown into a company with USD\$16 billion global turnover. Newell is also a listed company on the New York Stock Exchange.

In Asia, Newell has extensive manufacturing and sourcing activities in Mainland China. It also sells in certain markets including Japan, Australia and New Zealand, and has started to sell directly in Greater China. The regional headquarters is located in Hong Kong.

### Unique challenges in Treasury

Newell’s regional treasury centre in Hong Kong has gone live for almost two years. The centre centralises various vendor payments in Asia through an integrated channel between Newell’s Enterprise Resource Planning (ERP) system and its banking partner’s payment system. It also has a dedicated team to manage the vendors, and manages a regional cash pool in the city which concentrates the liquidity in the region.

Amit Singh, Group Treasurer, explained the unique challenges faced by the Group. *“We are inherently decentralised. If you know our history, the company was formed through a number of small acquisitions over the last 10 years, and therefore from a treasury management standpoint, there are a lot of interesting challenges as each company being acquired has*

*its own payment and collection structure which is inefficient.”*

### Why is an Asian corporate treasury centre needed?

On a global level, a consolidation of different structures was needed to unleash the benefits of merging various companies into a single one. A global project was carried out for this purpose.

As Singh suggested, *“Asia is not an exception and it actually took two years for a reorganisation.”* Newell clearly knew that the company needed a leader in the region to lead the transformation. He said, *“the key objective of having a regional treasury centre in Asia is to have ‘boots on the ground’. Basically, a corporate treasury centre setting in Asia could help to reach the local markets, and manage local banking and customer*

*relationships. Also, from a working capital and liquidity standpoint, the challenge is to centralise the cash, improve visibility and optimise bank account administration. Time zone difference makes it difficult to manage all these remotely, so having a dedicated team in Asia to manage all these tasks just creates efficiencies.”*

### **Centralising activities in Hong Kong**

Singh cites two factors which he believes makes Hong Kong a perfect choice for Newell’s Asia hub for corporate treasury activities: firstly, Hong Kong’s financial and political environment, and secondly, Hong Kong’s business context.

*“Obviously the technology and banking structures of Hong Kong are competitive in the region. The business and political environment are considered stable compared to other countries in Asia. The working environment and the local talent pool – not only in terms of employees but also consultants and advisors – are of high quality. FX convertibility, ease of doing business with China, and availability of local tax experts are also the key factors.”* He mentioned that while *“Hong Kong and Singapore are head-to-head competitors”* in the above areas, it is the second part, the business context that makes the critical difference. *“When you put this into business context and consider where our sales offices and factories are, Hong Kong becomes a really good choice.”* He highlighted that most of the company’s vendors and business contacts were stationed in Hong Kong. Miranda Shum, Chief Administrative Officer, Asia Pacific also added, *“From our company’s perspective, all our major units in Asia have either supply chain hubs or regional headquarters in Hong Kong. We also have a majority of our sourcing activities and manufacturing activities in Mainland China. For funding or any other back office support, they rely on our Hong Kong office. For Newell, it is natural to have our treasury operations in Hong Kong.”*

### **Implementation Process**

In terms of the implementation of the treasury structure, Singh said, *“I would say the process*

*took over a year. Given how complex the whole exercise was, I know companies that have taken over two years to implement the system.”* To summarise Newell’s journey in completing the implementation, *“one of the first things for treasury was to agree that it makes sense to have a regional hub which could lead to more efficiencies, even though that is generally true with any cash pooling. Once the treasury was comfortable with that, the next step was to make sure the senior management, chief financial officer, for example, was on board and supportive of the project. Once all of those were in place, we had to make sure that we understood the various structures that were available. Depending on the company’s business profile and other company factors that would lead to different ways that we could put such a structure in place. We spent a bit of time in educating ourselves about what structures and partner banks were available in Asia.”*

Singh recognised that different structures can have implications to the company in aspects like corporate policies and tax, *“For example,*

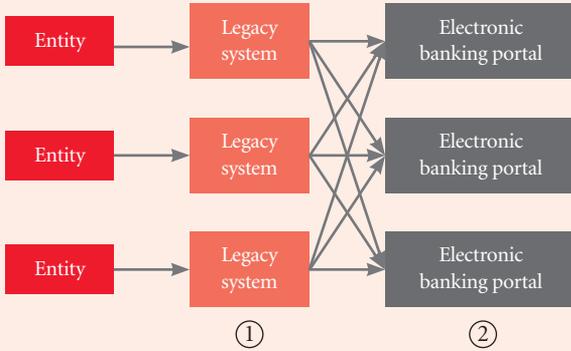
### **What is your advice to new comers setting up Asian Cash Pools?**

It is important to choose your banking partner wisely all the time. Make sure your partner is willing to assign a dedicated team, including a single point of contact, so that if any market has issues with the implementation they can communicate with the same person.

For implementation, if you perceive certain markets as less complicated, a phased approach makes a lot of sense. It is just easier to show that a part of work has already been finished, and that creates momentum to reach the finishing line. It motivates people, instead of creating an impression that everything is moving slowly.

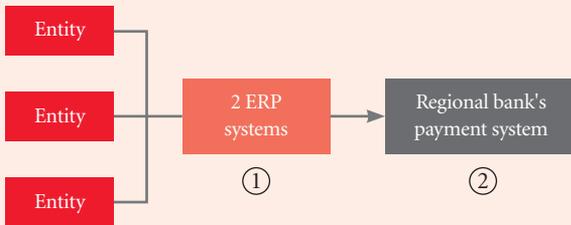
## Diagrams that summarise the changes in Newell's payment and liquidity management processes in Asia Pacific

### The original decentralised payment model



- 1) Different in-country entities rely on their legacy systems/processes to generate payment files. In many cases, manual efforts are required.
- 2) Entities upload their payments to the various electronic banking portals for the regional treasury team to review and process. However, since local entities use different banks, the regional treasury team needs to manage all these portals individually, leading to duplicated efforts.

### The new centralised payment model



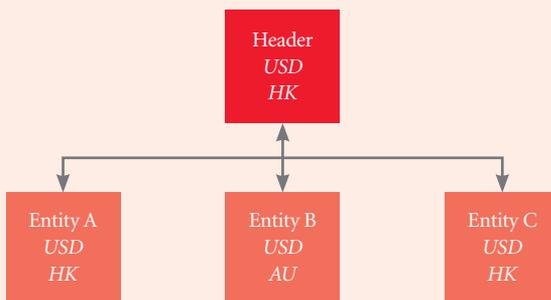
- 1) Entities in the region gradually migrate to two major Enterprise Resource Planning (ERP) systems. Host-to-host transfer is built between the ERP systems and the regional bank's payment system.
- 2) The regional treasury team approves all payment files on single Host-to-host platform which simplifies the procedures.

### The original decentralised liquidity management model



- Liquidity is kept in each entity's account at in-country level.
- In many cases, as there is no agreement between entities in place to authorise sharing of cash, each entity needs to keep more liquidity to avoid overdraft scenario.
- In case of any fund shortage, treasury team needs to fund the deficit accounts manually. This increases the workload of the treasury team.

### The new centralised payment model



- Excess liquidity is pooled to the header account in Hong Kong across different entities.
- In case of any fund shortage in any account, the deficit is covered by the automated sweep from the header account.
- At regional level, the higher efficiency in liquidity management reduces operating cash requirements and diverts the excess to more productive uses.

Abbreviations: AU – Australia  
HK – Hong Kong

*there are structures that would require funds in different entities to be commingled before being pooled to Hong Kong, while there are others which can keep funds separate. There are also structures that require cross guarantees among entities which could take a lot of time to put in place. Third party legal opinion is certainly required for certain types of structures. We also undertook a tax study by hiring a local expert to understand the tax impact of our proposed structure. It is important to understand how the structure we chose would make sense to our business unit and central hierarchy.”*

Once the decision was made at the headquarters, *“Miranda and the team met the finance team in each market in Asia, explaining to them what we would be doing and making sure that they would be comfortable with a lot of work that this project could create for them. Bank accounts could be migrated to the new banking structure or closed, or a local business unit that had a local banking relationship would no longer be needed. So there could be a lot of education and handholding. And Miranda actually took a lot of time to get the business units fully on board because eventually a lot of paper work and other work would be done by them.”* A reliable banking partner is also a key to success, *“it is important to choose banks that have strong capabilities in Asia, have a good reputation and a strong IT infrastructure.”*

To manage the expectations from top management, *“we did a cost and benefit analysis. We need to make sure that we have cost savings and higher efficiencies in operations. We had a project plan in place. We divided our project in several phases. We knew that not all markets were the same from Newell’s point of view nor did they have the same amount of complexity, so we took some markets in phase 2.”* He further added, *“It is not an easy project. A lot of work would stay in local markets. It takes time and creates a lot of documentation needs...It is really important to make sure people understand, especially senior management, that the project may take a long time, and set expectations accordingly.”*

## Major steps during the implementation



**Founded in:** 2015

**Number of staff:** 3

**Function(s):** Vendor and Payment Management Centre, Liquidity Centre, Financing Centre

**Key facts of the treasury centre:**

- Manage a level of liquidity equivalent to around USD 65MM
- Using Host to Host platform for payment
- Process average of 20,000 payments annually
- Maintain around 4,000 vendors



*The business of treasury requires innovative bankers, supportive regulation, and a sizeable talent pool. Hong Kong has these ingredients in abundance.*

*Clement Yeung, Regional Deputy Treasurer of WPP Asia Pacific*

## **WPP – Supporting Asian creativity from Hong Kong**

**WPP Plc (WPP) is the world’s largest communications services group. Established in 1985 in the UK, WPP provides a comprehensive range of advertising and marketing services and counts amongst its portfolio notable brands including J Walter Thompson, Ogilvy & Mather, Y&R, Grey and GroupM. Today, the company employs nearly 194,000 people (including associates and investments) in over 3,000 offices across 113 countries, and works with 352 corporates from the Fortune Global 500 list. WPP is also listed on the London Stock Exchange and NASDAQ in New York.**

### **Operations in Asia Pacific**

WPP currently operates in 20 countries in Asia Pacific. Operations are well established in the mature markets of Australia, Japan and Korea, while the fast-growing economies of North, South and Southeast Asia have driven rapid growth in the past two decades, with China and India leading the way. With economic growth lifting personal incomes and consumption across the region, FMCG and leading global companies become more eager to dominate new

markets and increase their investments. Clement Yeung, Regional Deputy Treasurer of WPP Asia Pacific explained, “*WPP provides services across all geographies to help its clients to compete successfully in marketing strategy, advertising, or any form of marketing communication as well as to monitor the progress.*” WPP companies in each country do operate independently, as they are established brands in their own right and have different areas of expertise. However, the focus on clients means WPP operates with the principle of “horizontality”, where the most

relevant capabilities and resources are drawn from the network to meet client needs.

### **Cash and Liquidity Management**

WPP oversees the cash and liquidity management of its operating networks across Asia Pacific from Hong Kong. These include:

- Managing borrowing limits of individual operating companies via cash pools to maintain oversight of their working capital funding requirements.
- Monitoring in-country cash positions and managing cross-border pools to minimise financing costs and maximise investment yield.
- Managing banking relationships, including facilitating KYC compliance requirements and evaluating banking products, pricing and solutions to meet operating requirements.

Yeung said, *“In-country operating offices do not have a dedicated treasury function, hence the Hong Kong regional centre oversees all aspects of treasury as guided by WPP group policies.”*

### **Managing Risks through a Regional Treasury Centre**

WPP is exposed to traditional business risks associated with global economic development, foreign exchange fluctuations, market liquidity level and regulatory landscape. In view of trends such as globalisation, greater use of digital marketing and the rise of social media, clients are exploring more innovative channels to communicate with consumers and are looking to increase the effectiveness of their marketing spend. The interaction of traditional and new

media, regulatory borders and borderless digital world complicates WPP’s risk exposures.

The regional treasury team is the natural focal point that consolidates management of the various risks, advises the operating companies on risk mitigation, and works with banking partners on solutions. Major banks have the required expertise in Hong Kong which facilitates the communication and resolution process.

Yeung said, *“For example, a client marketing strategy could incur cost in different currencies with local media, as well as US dollars with digital media, and the in-house technical expertise could be based in Australia or Singapore. However, the client may want a single regional contract with one billing currency. Our treasury will work with the operating*

#### **What is your advice to new comers setting up treasury centres?**

Find the right location. The key determinants are the availability of good support infrastructure and talent. First, the infrastructure should comprise a developed financial sector, innovative products, supportive regulation and an established legal system. Next is to find the right people. Talent congregates where there are opportunities, but that is not the only criteria. Lifestyle also matters, as it attracts the expatriate talent that companies may need to develop their local capabilities. In both aspects, Hong Kong presents strong credentials.

# WPP

The first 30 years...

2015 is a milestone year for WPP: its 30th as a communications services group. To celebrate our 'pearl' anniversary, we have charted here some of the key initiatives that have shaped the Company's history.

1985

Martin Sorrell invests in manufacturing company Wire & Plastic Products plc. Renames to WPP Group, becomes CEO



## dot com Y&R

1999

WPP Digital formed to aggregate new media interests



1998

WPP joins FTSE 100, becomes blue chip



1991

Group financial restructuring

1998

The Store, WPP's global retail practice, is launched



2000

Young & Rubicam Group joins

2000

WPP CEO knighted: recognition for services to industry



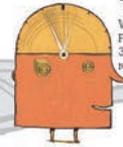
1997

Mindshare created: new generation global media house



1995

WPP Marketing Fellowships introduced: 3-year graduate recruitment program



1992

Multinational healthcare network, CombiHealth, launched



1993

WPP Atticus Awards launched for original thinking in communications services



4



1994

Global client creates new agency model: moves business from 40 agencies into 1 agency: O&M

## Advertising Age

1990  
WPP named No 1 in world

WPP tops Saatchi in AA rankings



1986

Group builds below-line capabilities: 12 US/UK acquisitions



1987

J. Walter Thompson joins



1989

Ogilvy Group joins

Ogilvy

1988

JWT's Tokyo building sold for \$205m: offsets 40% purchase price of JWT



companies and banks across geographies to devise a solution.” Perfect risk hedges rarely exist, particularly in emerging markets with less mature regulatory environments. Hence the process of risk management starts at the business development stage and continues as cash flow is generated from the projects, which is subject to volatility. According to Yeung, “The operating companies engage the regional treasury team when discussing new business with clients which involve cross-border elements. Apart from the client driven exposures, there are also regulatory challenges, like currency controls and taxation, which will impact the timing of receipts and actual cash flow received.”

The proximity and access to a developed banking sector with innovative hedging products is key. Yeung said, “Hong Kong, with its open markets, mature banking sector, supportive regulatory environment, readily available talent pool, and geographical access to Mainland China, provides regional offices with an established infrastructure to run a regional treasury.”

### Managing banking relationships through the platform in Hong Kong

The treasury team in Hong Kong plays an essential role in managing the regional banking relationships. Yeung explained, “WPP Treasury works closely with its global banking partners in

# GREY



*the Asia Pacific region. These banks understand our business and have regional teams in Hong Kong who coordinate both ours and their local banking compliance requirements across all countries. It allows us more time to focus our treasury resources on supporting business operations, which is a key advantage of being based in Hong Kong.”*

Many multinational companies have regional offices in Hong Kong, and major banks have made available specialised resources on-site, with Asia Pacific expertise, to serve their needs. Hence Hong Kong provides strong infrastructure and expertise support for a regional treasury centre.

## Culture, lifestyle and the talent pool

While cultural differences and language barriers can be a challenge to multinational businesses in developing countries, this isn't an issue in Hong Kong. Hong Kong is long established as a good place to work with a great lifestyle. Yeung saw no difficulty in hiring local talent or expatriates to staff treasury departments. *“Hong Kong is a magnet for top talent from overseas, and the locals are well educated and very driven. The talent pool is large and competitive so it's an ideal place for multinationals or regional organisations to set up their hubs or centres of excellence here.”*

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# About HKMA

The Hong Kong Monetary Authority (HKMA) is the government authority in Hong Kong responsible for maintaining monetary and banking stability. It was established in April 1993 by merging the Office of the Exchange Fund and the Office of the Commissioner of Banking.

The HKMA's policy objectives are

- to maintain currency stability within the framework of the Linked Exchange Rate System
- to promote the stability and integrity of the financial system, including the banking system
- to help maintain Hong Kong's status as an international financial centre, including the maintenance and development of Hong Kong's financial infrastructure
- to manage the Exchange Fund.

The HKMA is an integral part of the Hong Kong Special Administrative Region Government but operates with a high degree of autonomy, complemented by a high degree of accountability and transparency. The HKMA is accountable to the people of Hong Kong through the Financial Secretary and through the laws passed by the Legislative Council that set out the Monetary Authority's powers and responsibilities. In his control of the Exchange Fund, the Financial Secretary is advised by the Exchange Fund Advisory Committee.

# About InvestHK

Established in July 2000, Invest Hong Kong (InvestHK) is the Hong Kong Special Administrative Region (HKSAR) Government Department responsible for Foreign Direct Investment. Its mission is to confirm and strengthen Hong Kong as Asia's leading international business and financial centre by attracting economically and strategically important overseas, and Mainland companies to invest in Hong Kong.

As of December 2015, InvestHK had assisted over 3,820 companies which have created more than 41,200 new jobs in the first year of operation or expansion and over HK\$101 billion of investment.

InvestHK has industry specialists in Hong Kong's priority sectors: Business and Professional Services, Consumer Products, Creative Industries, Financial Services, Financial Technology (Fintech), Information and Communications Technology, Innovation and Technology, Tourism and Hospitality, and Transport and Industrial plus an overseas network of staff and representatives based in 30 key business cities worldwide covering its target markets. The Department's staff based in Hong Kong and overseas work seamlessly to support the successful set up and expansion of clients' businesses in Hong Kong.

You can access InvestHK's free, customised and confidential services in any stages of your business:



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# Acknowledgements

- HSBC (The Hongkong and Shanghai Banking Corporation Limited)
- JPMorgan Chase Bank, N.A.
- Mizuho Bank, Ltd
- PwC Hong Kong

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