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International A7

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Progress possible 'if 2012 blueprint passed'

Beijing hints at way ahead on reform

Gary Chung

Beijing is considering setting out the path to universal suffrage, including reform for the 2016 Legco election—but only if the Hong Kong government's proposal for the 2012 election is passed first.

A moderate pan-democrat, who has been in touch with mainland officials over the past year, said they had been told to raise ideas for a statement on reform in 2010.

Mainland researchers said a statement by Qiao Xiaoyang (喬曉陽), deputy secretary general of the National People's Congress Standing Committee, last month on Hong Kong's political reform was a rehearsal for further statements, the moderate democrat said.

"We are told top mainland officials are likely to make a statement on

approach reform

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assurances for "genuine" universal suffrage for 2017 and 2020, more concrete progress can be seen before 2020, such as an increase in the proportion of directly elected seats in Legco in 2016. Hours after the Hong Kong government unveiled its proposal for political reform in 2012 on April 14, Qiao made a statement in an attempt to clear doubts about the path to universal suffrage.

Chan Kin-man, a sociologist at Chinese University, called on the central government to issue a statement promising that the election of the chief executive in 2017 and Legco in 2020 would conform to the principle of universal and equal suffrage, and that the nomination method for the chief executive election in 2012 must ensure a contested poll.

Chan, a core member of the alliance, said Beijing should also declare publicly that electoral methods for existing functional constituencies did not conform to the principle of universal and equal suffrage, a position that has been stated by the Hong Kong government.

He believed a pledge by Beijing to increase the proportion of directly elected seats in Legco in 2016 would not be enough to secure the alliance's support for the 2012 proposals. Beijing could close the gap by giving details of 2016 reforms, such as raising the proportion of directly elected seats in Legco to two-thirds. "But a dilemma exists because the pan-democrats would be reluctant to take the political risk to back the proposal for the 2012 elections before Beijing makes a statement on arrangements beyond 2016," he said.

Mainland officials have been contacting moderate pan-democratic groups since early this year. These groups, including the Democratic Party, say they will support electoral proposals for 2012 if the administration endorses principles to guarantee genuine universal suffrage. These include scrapping functional constituencies by 2020.

For 2012, the government is proposing to expand by half, to 1,200 members, the Election Committee that picks the chief executive, and to create 10 more Legco seats.



Dropping in. North Korean leader Kim Jong-il leaves a hotel in Dalian (大連) yesterday. Kim is in China to seek financial aid to shore up his country's economy and to reduce tensions over failed nuclear talks. Photo: AP

UBS case puts HK in US tax dodge spotlight

Irene Jay Liu

Hong Kong may be doing all it can to avoid accusations of being a tax haven but, judging by the United States' pursuit of clients of Swiss banking giant UBS, it is a popular site for offshore tax evasion schemes.

Hong Kong shell companies or bank accounts were involved in more than half the tax evasion cases against American UBS clients made public so far. Of the 16 cases published by prosecutors since the US began investigating UBS, nine have involved Hong Kong entities.

Panama, Singapore, the Cayman Islands, the British Virgin Islands, Mexico and Liechtenstein have also been implicated, but Hong Kong entities were by far the most frequently used.

New York lawmaker Jeffrey Chernick, California businessman John McCarthy, New Jersey building supplies seller Juergen Homann, retired Boeing sales manager Roberto Citadini, and watchmakers Jack Barosh and Jules Robbins all transferred assets to Swiss UBS accounts in the name of Hong Kong shell companies. All six pleaded guilty to felony charges, among the 11 UBS clients who have pleaded guilty so far.

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settlement, US authorities have been avidly pursuing offshore tax evasion. And as cases have been publicised and Hong Kong's involvement has gained more prominence, many observers have suggested that the city itself has become a target of investigation. "What happened in Switzerland is a taste of things to come, and I believe that the next focus of US law enforcement interest is going to be in Asia," said US tax lawyer Scott Michel at a University of Hong Kong forum earlier this year.

Those predictions proved right, as Hong Kong's frequent appearances in the UBS cases prompted a visit last week by US prosecutors, who met US consular officials and local financial

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"We found out that UBS bankers and Swiss lawyers were recommending the US clients to open up Hong Kong corporations and Hong Kong bank accounts as almost a second curtain of secrecy to conceal the accounts and offshore assets from the Internal Revenue Service," Downing said at a University of Hong Kong forum on Friday.

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Pan-democrats would be reluctant to back the proposal for the 2012 elections before Beijing makes a statement on arrangements beyond 2016

A moderate pan-democrat

electoral reform beyond 2012 after the package for the 2012 elections is passed by Legco.

A core member of the Alliance for Universal Suffrage, which comprises 13 moderate pan-democratic groups, said they had received a similar message in the past two months.

Both Beijing and moderate pan-democrats are eager to reach a consensus on the package for the 2012 election. Another rejection would raise doubts about the effectiveness of the central government's policies towards Hong Kong, while pan-democrats could face pressure from those in Hong Kong who want to see progress in the electoral system.

Moderate pan-democrats are hoping that if Beijing refuses to give

Sichuan firm buying deposits of key metal

Howard Winn

A privately owned Chinese company is poised to take control of two of the world's biggest deposits of a key metal. Sichuan Hanlong, little-known outside the mainland, is building up its reserves of molybdenum, which is used for hardening steel, in nuclear power plants and for missile and aircraft parts.

Hanlong last week completed the acquisition of Australia's Moly Mines via a US\$200 million debt and equity deal that gives the Chinese company a 55 per cent stake. This follows an agreement Hanlong made in early March to subscribe for a 25 per cent stake in United States-based General Moly as a prelude to becoming the

controlling shareholder. Part of that deal will see Hanlong provide a bank loan guarantee to General Moly for US\$665 million.

Hanlong also plans to invest US\$5 billion in other Australian resources companies to become a "fourth force" in the iron ore sector competing with BHP Billiton, Rio Tinto and Fortescue Metals Group.

The company says it has financing in place from the China Development Bank and the Export-Import Bank of China.

Hanlong's funds will also be used to finance the start-up of Moly Mines' Spinifex Ridge iron ore project in the Pilbara region of Western Australia. "Hanlong has said they want to

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News Digest

National

Universities urged to tackle graft
The Communist Party's anti-corruption watchdog calls on universities and colleges to step up efforts to fight corruption in the education sector. Financial corruption, including shady deals in infrastructure projects or illicit trading of degrees, has tarnished the image of many mainland universities. **Full report A4**

City

John Hung loses bid to bar judges
John Hung has lost a bid to stop judges who are members of the Hong Kong Jockey Club from hearing his appeal against a bribery conviction. Hung, a former jockey Club voting member, was jailed for taking a bribe to help along a membership application. **Full report C2**

Business

Hong Kong banks branching out
While banks in the US and Europe are cutting branches, believing the internet and mobile banking will one day replace the human cashier, Hong Kong lenders are expanding their branch networks. Figures show the number of branches at the end of last year was 1,253, up from 1,220 in 2006 but down from 1,405 in 2001. **Full report B1**

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Authority limits buyers to two flats URA issues new rules to rein in property firms

Olga Wong

The Urban Renewal Authority has gone further than the government in seeking to rein in developers' flat-selling tricks on its projects.

The authority's new rules set limits on the number of flats that individuals or company buyers can buy, ban priority sales, and require developers to declare sales to senior managers and their connections, as well as board members.

The announcement yesterday followed last week's passage of a motion by lawmakers urging the government to turn its recently announced sales guidelines into legally binding regulations.

It also seen as a response to criticism the authority allowed its co-developer, New World Development, to sell at least seven of the first 30 flats at The Masterpieces in Tse Tung Tsui to relatives of company chiefs.

The eight measures will be applied to forthcoming renewal projects when they are ready for sale. Apart from limiting each buyer to two flats in the entire sales period, the measures also limit the number of flats sold to company purchasers to 10 per cent to give more opportunities to genuine buyers.

Currently, about 10 per cent of buyers purchase more than two flats in the authority's projects. More than 50 per cent of flats in The Masterpieces were sold to companies compared to about 20 per cent in other projects.

Banning priority and internal sales – a way of allowing favoured parties first pick as well as testing the market – the authority also says no flat should be reserved before sales officially start. Property agents are not allowed to buy flats if they are involved in marketing the project.

Level the playing fields

Urban Renewal Authority's tightened measures for flat sales:

- No internal sale/priority sale is allowed
- Flats selected for the first batch sale should be agreed by URA
- Property agents marketing the renewal projects are not allowed to buy flats in those projects
- First batch of flats should be sold to company purchasers
- Flats sold to company purchasers should not exceed 10 per cent of total flats
- Same buyer should not buy more than two flats
- Transactions of board members and senior executives of developers and connected people should be declared
- All sold units, price lists and transaction records should be disclosed at developers' websites and sales offices within 24 hours

While the Transport and Housing Bureau's new guidelines only require developers to declare their board members' transactions, the authority extends this to cover senior management and "connected persons".

The definition of "connected persons" will be the same as those specified by the listing rules of the Hong Kong Stock Exchange main board, which strictly covers developers' families and their subsidiary firms.

Developers should also disclose the transactions on websites and sales offices within 24 hours, although the government only requires the disclosure within five days. "We will follow the government's

rules. But on top of that, we will do more to enhance the transparency so that buyers will obtain useful information to make an informed decision," authority chairman Barry Cheung Chan-yuen said. "We are a publicly funded statutory body."

Cheung said developers violating the rules will be barred from tendering for the authority's projects for six to 12 months, and that would be extended if no project was put up for tender in the following year.

The new rules will be applied to forthcoming sales, including a Queen's Road East project developed by Nan Fung Group and Lime Star-don in Tai Kok Tsui developed by Sun Hung Kai Properties.

Donald Choi Wun-hing, managing director of Nan Fung Group, said the firm was worried about the limit on company purchasers. "If the project only sold 50 flats, then only five flats can be sold to company purchasers. Will it lead to speculation among company purchasers?" he said. "We also have to consider how to execute the rules."

Choi said no company purchasers speculated on flats as some bought them for staff accommodation or for rental income.

Sun Hung Kai Real Estate Agency senior sales and marketing manager Tam Sik-cham said the company would adopt the rules in principle.

A spokesman for the Hong Kong Institute of Surveyors, Lawrence Poon Wing-cheung, welcomed more stringent rules but said declaration of transactions should be extended to all staff of developers. He also urged the MTR Corporation to follow suit as its flats co-developed with developers made up a larger market share than the authority's, which account for less than one-tenth of the market.



RTM staff celebrate at Television House yesterday the 78 international and local awards the broadcaster won in 2009-10. Photo: Oliver Tsang

Radio station investigated amid claims of political advertising

Amy Nip

The Broadcasting Authority is investigating if Commercial Radio has breached the rules on political advertising, but it would be premature to say the rules should be reviewed, a top government official said.

Secretary for Commerce and Economic Development Rita Lau Ng Wai-lan made the comment after the Democratic Alliance for the Betterment and Progress of Hong Kong paid a controversial HK\$500,000 sponsorship fee to Commercial Radio for a programme it co-hosts.

Democratic Party lawmaker Emily Lau Wai-hing spent HK\$38,000 to place an advertisement with the same private radio station calling on the public to attend a march in support of universal suffrage.

Questions have been raised as to whether their actions violated the Broadcasting Authority's Radio Code

of Practice on Advertising Standards, which says no advertisement of a political nature shall be broadcast except with prior approval of the authority. No such approval was sought by Commercial Radio for the DAB's sponsorship of Lau's advert.

"A review of the regulation of political ads should be made after public discussion. It's too early to talk about it at this stage," Rita Lau said.

The authority had received 20 complaints by yesterday about the DAB's sponsorship for *Night Rider 18*, which is airing for 18 weeks from 2am to 6am. A second-tier member of the party will co-host each episode, interviewing youngsters and taking calls.

Twelve complaints were filed about Emily Lau's advert.

The authority would examine the complaints and pass them to its Complaints Committee, Rita Lau said. It would then request Commercial Radio to submit its input.

It's too early to talk about [reviewing the regulation of political advertisements on radio] at this stage



The Legislative Council's panel on information technology and broadcasting will meet on May 13 to discuss whether a grey area for the placement of political ads exists that the current code fails to regulate.

Panel member Cheung Man-kwong disagreed it was premature to talk about regulation of political ads.

"Commercial Radio should stop the sponsored programme immediately, and the government should review the restrictions now."

Meanwhile, the Trade Development Council said yesterday it had not interfered with production when it sponsored a segment on Commercial Radio to promote a trade fair in Fuzhou (福州). It said the content of the segment and all interviews were done by the radio station, which broadcast it in its talk show *One Clear Day*. The station has been criticised for failing to make it clear the segment was sponsored by the council.

Doubt cast on HOS effect on prices

Acting housing minister Yau Shing-mu said yesterday it was debatable whether to resume the Home Ownership Scheme because of soaring home prices, as the sale of subsidised flats did not always curb prices.

"HOS flats themselves do not necessarily, or very often do not, have the impact of suppressing flat prices," he said. "Therefore it's debatable if we should [rebuild HOS flats] when flat prices soar," Yau said at the Legislative Council's housing panel meeting.

Yau faced a group of lawmakers and deputies, the majority of whom

urged the government to resume building and selling HOS flats.

Of the 22 deputies attending yesterday's meeting or submitting their views, 16 were in favour of resuming the scheme, five were against it, while one person did not make his stance clear.

Those in favour of rebuilding HOS flats said many Hongkongers whose income exceeded the limit for applying for public rental flats were not rich enough to rent or buy a private property. HOS flats would give them a chance to own a home, as well as allow some tenants of public estates to

upgrade their housing by buying one. A few speakers argued the government should not intervene in the market.

"Society has a clear consensus about re-launching the HOS, and the government should build a suitable amount of HOS flats," legislator Ronny Tong Ka-wah said. He was echoed by some other lawmakers.

But Yau said the public had voiced different opinions. Home ownership should be a matter of personal choice and affordability, he said.

Paggie Leung

UBS case puts HK under US spotlight on offshore tax dodges

CONTINUED FROM A1

without ever having to set foot in it. There are hundreds of company registration firms that will take care of all the paperwork, file the annual reports, even provide a residential address and mail-forwarding service, for about HK\$5,000.

If a person doesn't want his or her name on the paperwork, some firms will even provide local people to serve as nominees and officers in the company. Hong Kong allows other companies to be shareholders, further protecting owners' identities.

As of March, there were 791,347 companies registered in Hong Kong, according to the Companies Registry. In March alone, 13,297 new companies were incorporated.

The convenience and low cost of forming corporations from afar puts the city at risk for illicit activities, according to the Financial Action Task Force, an intergovernmental agency that monitors countries' efforts to combat money laundering and terrorist financing.

"The availability of corporate services and the relative ease with which shell companies can be purchased contribute to the risk of Hong Kong being used for structuring of the proceeds of financial crime, corruption, tax evasion and smuggling," according to the taskforce's 2008 report.

Downing suggested the city's reputation as a sophisticated financial centre had contributed to its attraction for offshore tax evasion schemes.

"It may be that it's a very reliable international financial hub that it has a very developed, sophisticated group of people that can get these companies together, that can open up the accounts," he said. "There's a certain amount of trust and confidence when you come to Hong Kong and do business, as it was in Switzerland."

Downing said that for a long time, many companies were opened in the Caribbean, leading US officials to crack down on those jurisdictions earlier in the decade. "In the course of investigation against UBS, we found out a lot of the Caribbean money made its way into Switzerland, made its way into Hong Kong. So we've just been in Switzerland and we're dealing with that issue."

And now they have come to Hong Kong. "We're here to talk with, and we're hoping to get co-operation from, the financial institutions that have a similar situation that UBS had with respect to dealing with US clients," he said.

A Financial Services and Treasury

Punitive payment

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The notion that the US enforcement efforts against UBS may make its way to Hong Kong has raised concern among lawmakers. When the Legislative Council passed legislation that would permit the government to

collect tax information on behalf of another country or tax jurisdiction, lawmakers emphasised that the data collection efforts could not be "fishing expeditions," and should be provided on a case-by-case basis.

The appeal taken by the US investigators with regard to the UBS case, from what I read from the newspapers, appears to be a kind of fishing expedition," accountability sector legislator Paul Chan Mo-po said.

At present, Hong Kong cannot hand over tax information to the US in civil tax matters, because there is no information-sharing pact between the two governments. However, each jurisdiction can provide assistance on criminal investigations, including felony tax investigations.

Regardless, financial institutions in Hong Kong will soon be handing over information about their American clients to US authorities. Earlier this year, US President Barack Obama signed legislation that requires foreign financial institutions, foreign trusts and foreign corporations to provide information about their US clients.

If they don't, these companies face a 30 per cent levy on their income from US financial assets.

Meanwhile, government officials are working to counter criticism that Hong Kong is a tax haven. Over the past few months, they have moved swiftly to pass the necessary legislation and sign double-taxation treaties to comply with international tax transparency standards.

Chan has introduced a motion to create a specialised tax policy unit to lead the government's strategy on local and international tax policy.

"Knowing that there is growing international co-operation in regard to tax enforcement, instead of passively reacting to requests, this tax policy unit could monitor the situation and develop policy," he said.

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Byline: Irene Jay Liu

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