

Conceiving and Realizing the First Community Interest Company (CIC) in Hong Kong

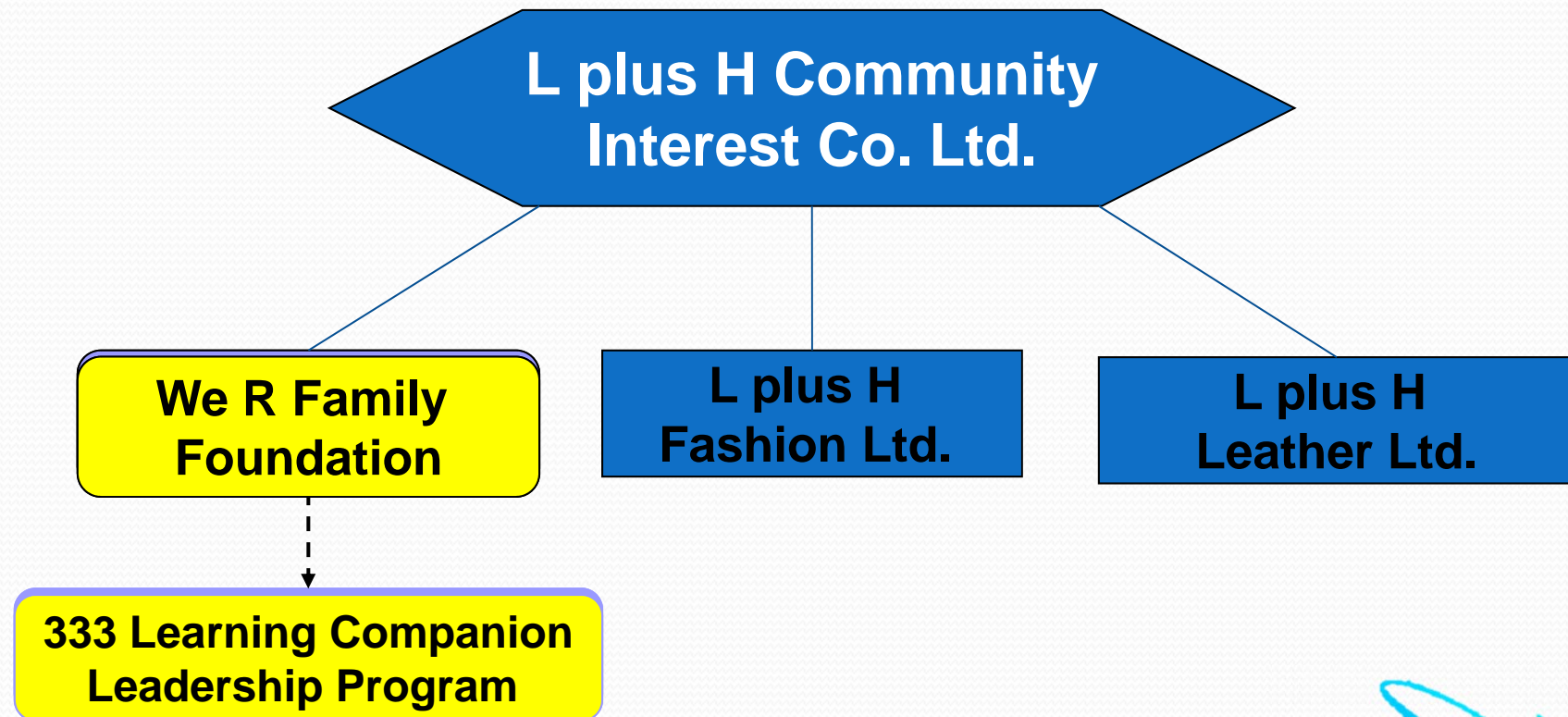
Teresa Lin
L Plus H Community Interest Co. Ltd.
Executive Director



Conception and Milestones

2006– 2008	Nurturing a total solutions model on philanthropy
Nov 2008	Established L plus H Community Interest Co. Ltd. (綿德社利有限公司)
Dec 2008	L plus H Fashion Ltd. (綿德服裝有限公司) was set up
Feb 2010	Set up We R Family Foundation (幼吾幼慈善基金). A Charity Foundation under S88 of IRD Ordinance
Feb 2010	Establish 333 Learning Companion Leadership Program (333小老師培訓計劃)
April 2011	L plus H Leather Ltd. was set up (綿德皮具有限公司)

Organization Structure



易經：天人合一

「裁成天地之道，輔相天地之宜」



人在有序化的秩序中 ➡ 作出「順天」的**抉擇**
➡ 以成就我等「生命」目的

我們之愿景：

“With the Community, For the Community”





The Economic Environment 2008 -2009

- 2008 - the World in financial crisis, worst recession in decades
- Finance ministers and central banks are lost in transit
- The need to stimulate demand and recapitalize shaky banks
- Worrying symptoms in Euro market on Greek and Spain are beginning to show
- Asian economies deteriorated rapidly due to drag on intra-regional trade
- Factory orders in hand fell to 50%, 20% from prior years
- Businesses, be it large corporations and SMEs, slashed jobs to preserve their businesses
- Actions are needed to bridge-over difficult times in Hong Kong

The Social Landscape in 2008

- The wealth gap widened, Hong Kong among the worst in Asia
- The traditional model of non-profit organizations at the crossroad
- Need to create income to fund projects
- The demand from donors/sponsors on results
- Social enterprises are a relatively new phenomenon
- Government recognized the potential benefits of social enterprises in enhancing employment of the disadvantaged
- In 2006 43 non-governmental organizations running 172 social enterprise projects
- In 2007, the Governments Commission on Poverty published a report to support further development of Social Enterprises



The Market Scenarios

- Land prices, rent and labor costs in the neighboring countries especially China are rising.
- Brands are worry about the infringements and conducts of their Chinese suppliers
- Buyers demanded for higher standards, lower margins and faster deliveries
- Hong Kong products enjoy CEPA terms

The Market Scenarios (cont.)

- Provide an alternative option to “Made in China” & “Made in Italy”
- Hong Kong offers less language barrier, good infrastructure, sound legal system and quick responses
- One-stop service - few similar shops in HK
- High purchasing powers of Mainland and Asian consumers
- Most social enterprises in HK micro and small enterprises. These sizes of enterprises have high failure rates

Social Enterprises in UK Context

- UK – Social enterprises has two components
 - Business with social objectives
 - Surpluses of such business are principally reinvested in the business or community for those social objectives rather than driven by the need to maximize profit
- UK government has created a new type of companies called community interest companies (CICs), the formation of which provides social enterprises with an easily recognized legal identity but also facilitates the pursuit of their social objectives
- CICs must state their social objectives in their constitution and report annually to the government's Regulator of Community Interest Companies on their service delivery to the community and involvement of stakeholders in their activities

What is appropriate to HK Context?

- Charity Commission not established in HK
- Social enterprises are basically similar to any commercial enterprises established under HK law
- ICAC issued best practice checklist on internal control in social enterprises
- Need to impose self-control
- To differentiate in management transparency and governance
- To increase the chance of getting government support and public donations/sponsorships
- Establish value and gain public confidence



In Search of the best framework

- The CIC model (based on UK's CIC Regulations 2005) :
 1. Social mission
 2. Asset lock – Transfer of assets from the company at less than market value is prohibited unless to another asset locked body or otherwise for the benefit of the community
 3. Dividend cap – capped at maximum of 35% of net profit after tax per financial year subject to maximum return to members not more than 10% on their capital investment.
- Features of CIC :
 - Heavier emphasis on the commercial side
 - More flexible than social enterprises (SE) operated by NGOs
 - More able to attract individuals to join than NGO SEs
 - The asset lock clause ensures that the social capital will be recycled for creation of social benefits in Hong Kong

Governance at CIC - Overview

Executive/Management Level:

- Alignment with the directed objectives and strategies of the various vehicles under the organization
- Coordinate and monitor performances of the subsidiaries/associated companies
- Development of policies and guidelines standards
- Maintain a complete and update record of the shareholders and directors at various levels
- Establish a common IT platform and templates for financial reporting

Governance at CIC and Subsidiary levels

Compliance, legal and Risk Management:

- Being a pioneer in an operation of a CIC, setting best practices and standards are essential for the uphold and sustainability of this model
- M&AA, policies and guidelines should be updated regularly to reflect the actual position.
- With the addition of institutional investors, CIC and subsidiaries will enter into a number of legal contracts which may generate performance risks. Management complexity steps up. Violation creates legal and reputation risks.
- Two area requires tightening
 - a) Establishment of management standards by setting up guidelines
 - b) Clarity of Roles and responsibilities by designation of authorities

Conversion of all subsidiaries into CIC

- To provide transparency and control taking into account succession and alignment requirements.
- Evaluate the cash injection of subsidiaries as donation or capital injection or loan
- Amend the M&AA of both subsidiaries to be in line with CIC clauses
- Determine the appropriate capital sizes for the subsidiaries in line with commercial acceptable norm by incorporating both business and social requirements



Like minds get together for social good



The Fashion Business Concept

Something never changes: -

- On demand for high quality knitwear
- To compete for human talents
- Capital for long term investment

For sustainability: -

- Build brand
- Build a “Community” Brand

Establishment: -

- Resurgence of “Made in Hong Kong” through L plus H Fashion Ltd.
- The name “L plus H” embodies our belief that Love + Hope can make a positive impact in the lives of our employees and customer
- A collaboration and training platform for local workers, masters and designers



Factory in Tuen Mun



愛與望 織出個尊嚴 AN UPWARD SPIRAL
An audacious team powered by hard heads with soft hearts 夢共昇平
Crossover talents of social entrepreneurs, techno-designers, and craftsman-workers
RUTHLESS WITH TIME, GRACEFUL WITH PEOPLE
舊瓶裝新酒 換湯也換藥
VENI VIDI VICI 企業管理 山寨精神 MORE THAN KNIT
A collaboration of designers, technologists, artists, and entrepreneurs





Then comes the Leather Concept

Objectives

- To incubate a new generation of young designers, leather craftsmen for Hong Kong
- To create our value without displacing existing players in the industry
- Hong Kong lacks a top quality Leather bags and accessories brand. Hong Kong circumstances only allow for high-end quality fashion at affordable prices
- Craftsmanship conservation versus mass production
- The name “L plus H” embodies our belief that Love + Hope can make a positive impact in the lives of our employees and customers
- Groom new generation of designers with cross-overs in every season



Leather Workshop in Operation



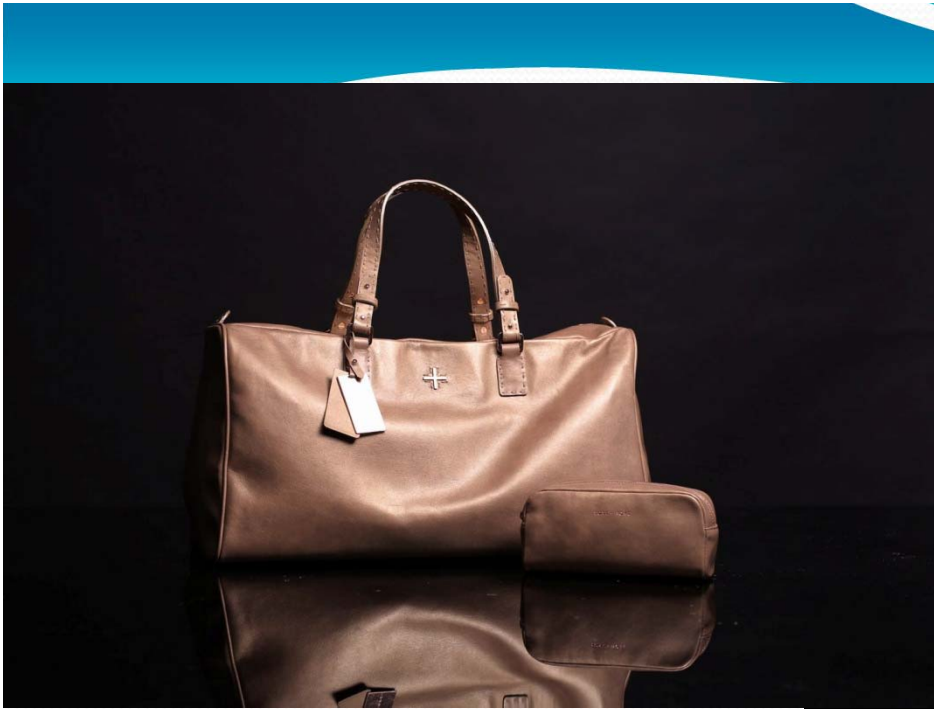
Leather Products



Blessing Collection

- 100% Hand-Made in Hong Kong in genuine leather with matching greeting card for personalized messages
- Four different designs in a spectrum of fashion colors to celebrate your friends or loved one's birthdays, arrivals of new- born babies and weddings!
- Reusable as an eyeglass case, pen holder, mascara and cosmetic pencils organizer, jewelry pouch and much more...





Retail outlet in Central



**Fashion Show to
promote a collection
by local knitwear
designer**





We R Family Foundation

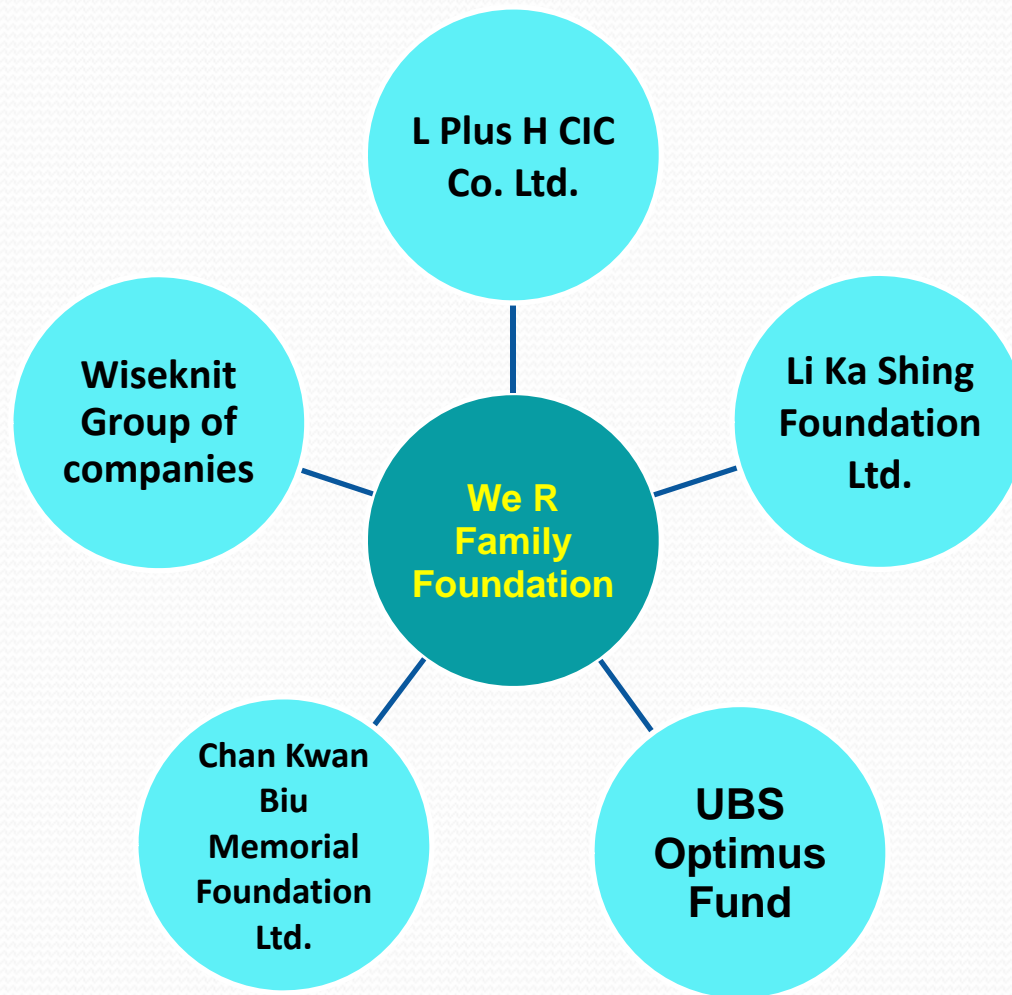
- Founded by L plus H Community Interest Co. Ltd. with a few foundations
- Objectives to help primary school children coming from non-government subsidized families whose children perform badly in schools
- The project is 333 Learning Companion Leadership Program
- Now provide school homework aid and value training to average 750 children on daily basis. Now operates in 4 learning centers
- We coach them on self respect and respect for others. Show them positive thinking and how to deal with stress.







Challenges for We R Family Foundation



- Balance the requirements of each foundation
- Acceptability of impact measurements objectives and standards

Challenges to CICs and Social Enterprises alike

- Lack of public understanding and acceptability of the term and the sector
- Lack of an appropriate legal framework that facilitates the sector's development
- Insufficient business support for example training to raise management standards and on negotiation skills, funding channels and platform of exchanges
- Management in social enterprises torn between the dilemma of business management for success and social work. The “lost generation”
- Mindset changes

Integration of Business and Social mindset

- Survival – business is business
- Empathy – Manage and conduct business with a heart
- Vision to identify market opportunities with strong execution power to manage for success
- Accept lower profit margins as social agenda have to be compromised
- Patience and stamina to use people that lacks relevant experience
- Transparency, proper financial control, results evaluation and disclosure, compliance and governance are essential controls to successful businesses



End

