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APERCU

HOW TO PREVENT LOOPHOLES IN STAFF-RELATED EXPENDITURE

Travelling and entertainment (T&E) expenditure by government officials has been a hot topic recently, and some of this expenditure has been deemed unreasonable in terms of the amounts involved and the ways in which they were incurred. Of course, this controversy may be due to weaknesses or grey areas in the policies and procedures of the departments concerned, which have enabled decision-makers to decide in their own favour.

In fact, T&E expenditure is just one of many kinds of staff-related expenditure which may include, amongst other:

- Transportation and meals;
- Staff training;
- Reimbursement for goods and services acquired; and
- Employee cash advances.

As for ways of monitoring staff-related expenditure, it may be difficult to apply a standard best-practice risk-management approach in every case; and the level of tolerance about deviations from best practice and what constitutes an acceptable risk level varies between different organisations.

Lack of monitoring and control may create opportunities for malpractice
If an organisation has not yet established and designed proper policies, guidelines and procedures for the types of expenditure listed above, there may be loopholes that will allow employees and others to misappropriate its assets and even commit fraud.

Such loopholes might include:

(1) **Inappropriate expenditure –** Some companies allow only senior staff above a certain level, such as department heads, to claim entertainment expenses up to a specified amount; but they do not state the types of occasions (for instance, only business meals), the amount spent per head, or the acceptable period during which the expenditure may be incurred (such as from Monday to

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Friday). Thus, department heads may take advantage of loose controls to claim for inappropriate expenditure. For example, they might claim amounts spent on entertaining business partners at a club as a business meal or gathering, without providing details.

(2) Invalid expenditure – It is sometimes quite difficult for the person responsible for approving reimbursement of business expenditure to verify its authenticity. For example, was a meal being claimed for a matter of hospitality for business partners, or was it a family dinner? Was a claim for an overtime meal allowance really due to people working overtime, or was it for a gathering of friends?

(3) Overstated expenses – Many businesses in Hong Kong and on the mainland still issue bills and receipts manually. In such cases, a person might ask for the amount on the receipt to be inflated and pocket the difference. Common examples of this include restaurants, taxis, and grocery and stationery shops.

(4) Other offences – People may exploit loopholes in their company's internal control systems and misappropriate its assets for the purpose of bribery or to conduct activities that create conflicts of interest. For example, they might spend money on expensive gifts to a supplier in order to obtain illegal kickbacks, and report this as entertainment expenses.

According to the *Report to the Nations on Occupational Fraud and Abuse – 2012 Global Fraud Study* issued by the Association of Certified Fraud Examiners ACFE, the misappropriation of assets is the most common type of fraud, accounting for 87% of all reported fraud cases. It therefore cannot be ignored. It may be worthwhile reflecting on the characteristics of this type of spending.

What is the standard?

The characteristics of staff-related expenditure include: (1) irregular types of expenditure; (2) expenditure for which no reference can be made as to the amount per transaction; (3) expenditure that is not mandatory in nature; and (4) expenditure that is driven by the actual needs of the company. In addition, some companies use this category of expenditure to provide staff welfare or indirect staff benefits. In the absence of a widely accepted benchmark on what constitutes reasonable spending, the reasonableness of the expenditure depends on the personal preferences and normal practice of the decision-maker concerned. Such flexibility sometimes allows scope for unauthorised transactions and even fraudulent activities.

Starting with the corporate culture

There is a direct relationship between staff-related expenditure and employee behaviour within a company. Deviation from the company's expected practices may be corrected through on-going education and training organised by its management.

It is understood that many organisations have an established code of conduct or ethics, which employees are required to comply with. Every employee may have signed this code on his or her first day of employment. But, after several years, employees may find it difficult to recall the content of the code and the company's expectations. However, employees could be reminded of the content of the code if the company holds regular seminars about its importance. At the same time, management can reinforce the company's corporate culture, risk-management philosophy, corporate governance and tone-at-the-top during the seminar and through everyday practices.

Preventing conflicts of interest

Employees frequently face conflicts of interest while performing their duties. For example, an employee who makes an overseas trip to represent the company in negotiating the terms of agreements with overseas suppliers may take the opportunity to visit his or her family and go sightseeing without reporting these deviations from the itinerary to the company. To prevent conflicts of interest, companies should establish and improve their system for reporting details of when and under what circumstances these deviations occurred, the amounts involved, etc.

The value-for-money principle

Most organisations have limited resources, so they are advised to conduct adequate internal assessment and analysis to ensure their proposed spending is cost-effective, reasonable and achieves the objective of value for money before management approve it. However, to enforce this principle, it is necessary to collect a lot of benchmarking data in advance before a meaningful comparison can be made about the reasonableness of expenditure.

Alternatively, an organisation may develop operating guidelines that management regard as appropriate. For example, those taking flights longer than six hours might be entitled to travel business class. There should also be clearly-spelt-out criteria for reviewing and approving gifts and entertainment, such as what objectives they can achieve, acceptable costs, and past cases for reference.

Strengthening the system

Management should regularly review the appropriateness and design of their company's policies and procedures for staff-related expenditure, so that employees find them easy to understand and there are no grey areas in their implementation. Also, the policies and procedures should clearly spell out which items do not qualify for reimbursement. Roles and responsibilities, delegation of authority and limits should all be clearly written into these policies and communicated to the people concerned. Management may also consider establishing a reporting mechanism to collect information in order to deter wrongdoing.

Fraud risk assessment and independent audit

As mentioned above, intentional misstatements and false reporting of staff-related expenses are among the most prevalent forms of asset misappropriation, and they occur frequently. Management must conduct regular assessments to ensure adequate internal control measures are in place to avoid fraud-related risk. In addition, the internal audit department of organisations that have such a separate internal audit function should arrange regular reviews of the design and effectiveness of its policies and procedures, and also assess the adequacy of its rectification measures. Finally, management should remember it has the ultimate responsibility of maintaining the adequacy and effectiveness of these measures and keeping the impact of risk factors to an acceptable level.

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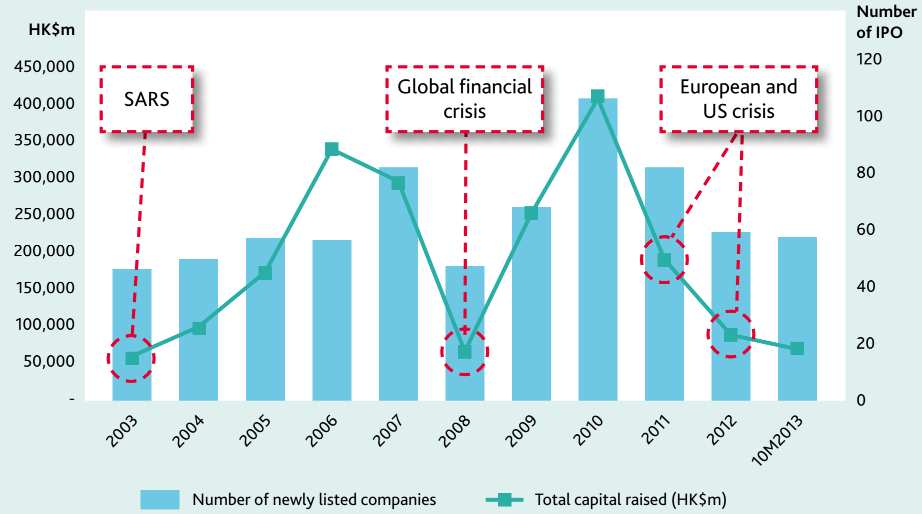
HONG KONG 2013 IPO MARKET REVIEW

The Hong Kong economy has endured a series of shocks over the last decade. These included SARS, the global financial tsunami prompted by the Lehman Brothers collapse, and the on-going European and American crisis. **(Figure 1)**

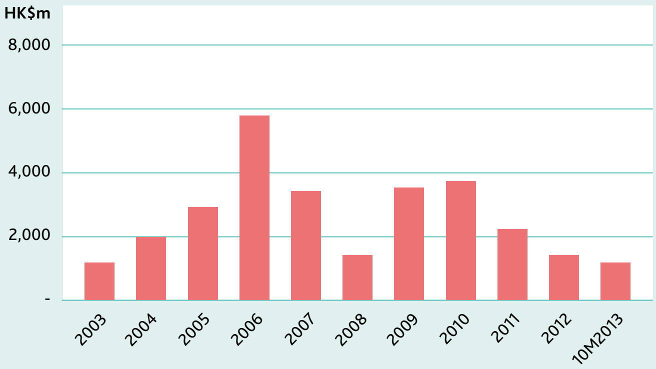
Initial Public Offering (IPO) activities have yet to recover from their peak in 2010, when a total of HK$403 billion was raised by 106 IPOs. Since then, the volume of IPOs has declined, with the Hong Kong Stock Exchange (HKEx) raising only HK$187 billion from 82 of them in 2011, and HK$84 billion from 59 in 2012. HK$67 billion was raised from 57 IPOs during the 10 months up to 31 October 2013. There was also a drop in the average size of the deals, from HK$5.9 billion in 2006 to just around HK$1.4 billion in 2012, as illustrated by the chart in **Figure 2 and 3**.

Figure 1: Hong Kong IPO overview (2003-2013)



Source: HKEx and Bloomberg

Figure 2: Average deal size



Source: HKEx and Bloomberg

Figure 3: Summary of historical IPO information

Period	Number of IPOs	Funds raised (HK$'m)	Average deal size (HK$'m)	% deals over HK$1b
2011	82	186,680.77	2,276.59	40%
2012	59	83,760.62	1,419.67	29%
10M12	49	47,114.58	961.52	22%
10M13	57	67,309.06	1,180.86	25%

Source: HKEx and Bloomberg

The number of IPOs shows that the funds raised and average size of deals during the 10 months to 31 October 2013 (10M2013) were both better than those in the 10 months ended 31 October 2012 (10M2012).

The highly successful major listings on the HKEx in the past two years have included The People's Insurance Company (Group) of China Ltd, Haitong Securities Co Ltd, and Sinopec Engineering (Group) Co Ltd. The top 10 IPOs in 2012 and 10M2013 are shown in **Figure 4**.

IPO breakdown

In 2012, around 7% of IPO companies raised more funds than their estimated maximum net raising, and a further 81% raised funds that were within their maximum and minimum range. However, these statistics may also indicate a lack of confidence in the market, as the companies' forecasts were less optimistic than hitherto.

In 10M2013, none of the companies raised more funds than the estimated maximum net raisings, but around 89% of them raised funds that were within their maximum and minimum expected range. **(Figure 5)**

Figure 5: Summary of funds raised versus expected floor/ maximum

	2012	10M2012	10M2013
Raised < Floor	5.08%	6.12%	3.51%
Raised = Floor	47.46%	44.90%	22.81%
Floor < Raised < Max	27.12%	28.57%	35.09%
Raised = Max	6.78%	4.08%	31.58%
Raised > Max	6.78%	8.16%	0.00%
Others	6.78%	8.16%	7.02%

Source: HKEx, Bloomberg and Prospectus

Figure 4: Top 10 IPOs in 2012 and 10M2013

Company	2012 IPO date	Funds raised (HK$'m)	Industry	Location
1 The People's Insurance Company (Group) of China Ltd	7/12/2012	24,005.74	Financials	China
2 Haitong Securities Co Ltd	27/4/2012	13,031.64	Financials	China
3 Inner Mongolia Yitai Coal Co Ltd	12/7/2012	6,994.68	Energy	China
4 Sunshine Oilsands Ltd	1/3/2012	4,487.24	Energy	Canada
5 Shanghai Fosun Pharmaceutical (Group) Co Ltd	30/10/2012	3,965.63	Health Care	China
6 China Machinery Engineering Corporation	21/12/2012	3,877.20	Industrial	China
7 Huadian Fuxin Energy Corp Ltd	28/6/2012	2,475.00	Utilities	China
8 Zhengzhou Coal Mining Machinery Group Co Ltd	5/12/2012	2,295.25	Industrial	China
9 Future Land Development Holdings Ltd	29/11/2012	2,056.10	Consumer Discretionary	China
10 China Nonferrous Mining Corp Ltd	29/6/2012	1,914.00	Materials	China

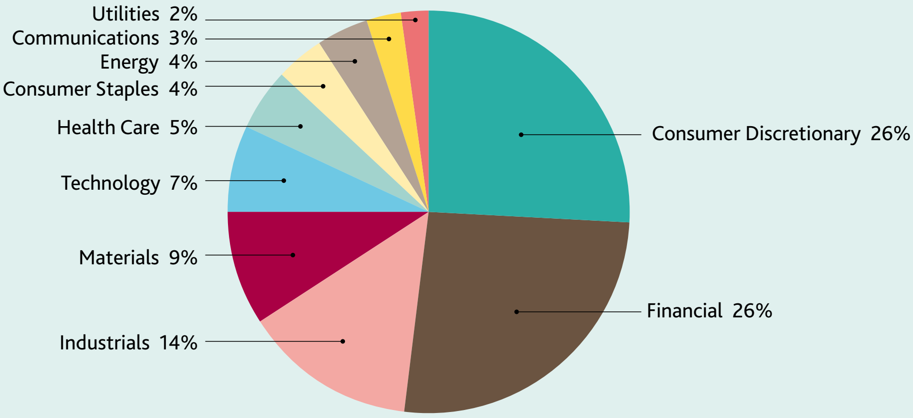
Company	10M2013 IPO date	Funds raised (HK$'m)	Industry	Location
1 Sinopec Engineering (Group) Co Ltd	23/5/2013	13,944.00	Energy	China
2 China Huishan Dairy Holdings Co Ltd	27/9/2013	10,112.89	Consumer staples	China
3 China Galaxy Securities Co Ltd	22/5/2013	8,308.81	Financials	China
4 Langham Hospitality Investments Ltd	30/5/2013	4,260.87	Financials	Hong Kong
5 Chianlco Mining Corporation International	31/1/2013	3,088.58	Materials	China
6 Macau Legend Development Ltd	5/7/2013	2,196.84	Consumer discretionary	Macau
7 Nexteer Automotive Group Ltd	7/10/2013	2,016.00	Consumer discretionary	USA
8 China Harmony Auto Holding Ltd	13/6/2013	1,672.77	Consumer discretionary	China
9 Hydoo International Holding Ltd	31/10/2103	1,651.75	Financials	China
10 Forgame Holdings Ltd	3/10/2013	1,599.87	Communications	China

Source: HKEx and Bloomberg

IPOs by sector

The financial, consumer discretionary and industrial sectors dominated the IPO market during 10M2013, accounting for 66% of all new listings, in terms of the number of listings. They were followed by the technology, materials and healthcare sectors, which accounted for a total of 21%. **(Figure 6)**

Figure 6: IPOs by sector 10M2013



Source: HKEx and Bloomberg

Summary

The last 12 months have been challenging for Hong Kong's equity and capital market. Uncertain global economic conditions and slower growth in China have affected investor confidence. Several high-profile Hong Kong IPOs were called off or postponed, including the Alibaba Group, although that was due to issues with its proposed governance structure.

Even so, many companies made highly successful listings on the HKEx this year, including Sinopec Engineering (Group) Co Ltd and China Huishan Dairy Holdings Co Ltd. The Hong Kong IPO market remains one of the top for IPO listings, with a strong pipeline that includes a number of Chinese financial institutions, such as The Bank of Chongqing, China Cinda Asset Management, Huishang Bank, Guangfa Bank and China Everbright Bank. However, the HKEx will need to become more diversified and internationalised, as 77% of the capital of HK$67.3 billion raised here in 10M2013 was related to Chinese companies.

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BDO GLOBAL ANNUAL RESULTS 2013

Sustained growth sets up BDO to lead market consolidation

BDO announced a total combined fee income for all BDO Member Firms of US$6.45 billion / €4.92 billion for the year ended 30 September 2013 – a 7.3% increase in US dollar term. The revenue splits per region have remained similar year on year, with standout results in Europe, the Middle East and Africa growing 6.63%, Americas rallying 6.62% and Asia Pacific rising 4.26%. The growth is attributable in part to a series of strategic mergers to augment organic growth, a number of which have already delivered significant impact.

The percentages contributed by fees for various service lines throughout the BDO network remained similar to previous years, with audit and accounting making up 59% of revenue, tax services bringing in 20% and advisory services 21%.

As of 30 September 2013, BDO provided services in 144 countries. BDO have completed 20 mergers in the past 12 month and there were corresponding increases in the numbers of BDO's partners and staff members, as well as the number of BDO offices. These rose to 56,389 people and 1,264 offices.

Martin van Roekel, CEO of BDO International Limited said: "We have seen a strong twelve months, increasing turnover and delivering strategically important mergers. Within the next five years, we anticipate that the global consolidation of our profession will gather pace, leaving only 2 or 3 substantial mid-tier networks globally. The decisions we have taken in 2013 have put us in a leading position to be among those remaining. Only those with financial reserves will break away and our growth this year creates a platform for a future programme of mergers that we believe will lead the consolidation of the mid-tier and will increase both our revenues and the number of countries in which we have a presence."

BDO Global performance

Year to 30 September	2013	2012	2011	2010
Combined fee income	€4,918 million (US$6,453 million)	€4,630 million (US$6,015 million)	€4,068 million (US$5,677 million)	€3,893 million (US$5,284 million)
Number of countries	144	138	135	119
Number of offices	1,264	1,204	1,118	1,082
Total staff	56,389	54,933	48,890	46,930

BDO NEW APPOINTMENTS

PAUL WILLIAMS
Director
Specialist Advisory Services

Paul Williams was appointed as Director of Specialist Advisory Services of BDO Hong Kong with effect from 1 October 2013. He specialises in due diligence, M&A advisory and valuation services.

Paul joined BDO from the corporate finance team of an international accounting firm in 2001. Paul has led teams on a range of roles including accelerated IPO's and quoted company acquisitions, with a broad range of experience including financial and vendor due diligence, private equity investigations, MBO's, MBI's and sales mandates.

Paul works with MNCs completing transactions in Asia and has assisted many HK/Chinese companies to access capital markets in Europe and Asia. Paul has also assisted Chinese and Asian companies in a range of other transactions, including corporate M&A, private equity investment and fund-raising, and is seeking to develop better channels that allow Chinese companies to source international investors.

Paul has travelled extensively within China, and is familiar with Chinese culture and business practices as well as the wider Asian region and is a conversational level mandarin speaker.

He was educated at the London School of Economics.

PORTIA TANG
Director
Client Services

Portia Tang rejoined BDO Hong Kong as Director of Client Services on 4 November 2013.

Portia has over 15 years of experience in professional and management consultancy firms obtained in Hong Kong and Australia, specialising in audit, transaction services, project management and business development.

Portia has extensive experience in servicing a wide range of clients, covering private and public listed companies (local and overseas) as well as multinational corporations in a variety of industries including but not limited to trading, manufacturing, retail, service and financial institutions. She has experiences in advising clients on Initial Public Offerings, mergers & acquisition transactions, business restructuring and process re-engineering.

Portia is a qualified Chartered Accountant (Australia) and a Certified Public Accountant (Hong Kong). She is a committee member of the Institute of Chartered Accountants – Hong Kong Group. She recently retired as the Group's Treasurer and currently serves as its CPD Coordinator.

CALVIN WONG
Director
Assurance Services

Calvin Wong was appointed as Director of Assurance Services of BDO Hong Kong with effect from 1 October 2013. Calvin has extensive experience in handling audit assignments of listed companies over a wide variety of industries including food-processing, real estate development, bio-pharmaceutical and garment. Calvin was also involved in various transaction support assignments including initial public offerings, and financial due diligence in acquisitions of companies.

Calvin has accumulated more than 15 years of professional experience in international accounting firms.

Calvin is a Certified Public Accountant in Hong Kong.

CHAN LEUNG LEE
Principal
Specialist Advisory Services

Chan Leung Lee (aka Lee Chan) was appointed as Principal of Specialist Advisory Services of BDO Hong Kong with effect from 1 October 2013. Lee has over 17 years of experience in corporate insolvency, receiverships, schemes of arrangement, restructuring assignments, personal bankruptcy, matrimonial proceedings and litigation support.

Lee has been the executive in charge of various liquidation and receivership appointments, including leasehold properties, manufacturing and construction businesses. He also has wide experience in matrimonial cases in Duxbury Calculations, company valuations, assets tracing, buy & sell mandates and financial due diligence assignments.

Lee holds a bachelor degree in Economics and a Diploma of Insolvency in Hong Kong, and is a member of the Restructuring and Insolvency Faculty of the HKICPA.

HEIDI CHAN
Principal
Client Accounting Services

Heidi Chan was appointed as Principal of Client Accounting Services with effect from 1 October 2013.

Heidi has 15 years of experience in outsourced accounting services. Her clients include multi-national corporations (MNC) in different business sectors such as property investment, financial services, general trading, technology as well as small-to-medium sized companies.

She is familiar with financial reporting requirements of MNCs and preparation of specific financial reports and packages.

Heidi is a fellow of Association of Chartered Certified Accountants and is a Certified Public Accountant in Hong Kong.

BDO GLOBAL ANNUAL CONFERENCE IN HAMBURG, GERMANY 2013

BDO Global Annual Conference Hamburg 2013 was held from 14 to 16 October 2013.

The Conference provided a unique networking environment for partners from BDO Member Firms across the globe to share ideas on business and client issues at both international and national level. It was a highly interactive event, including a series of group sessions on the first day when the delegates were examining how the network could bring our experience to bear to ensure that the consistent delivery of our vision gives us a competitive advantage, right across the world.

A series of events to celebrate the 50th anniversary of the founding of the BDO network in 1963 was conducted on Wednesday 16 October 2013.

BDO Hong Kong's Chairman Albert Au, Chief Executive Officer Johnson Kong, Managing Director-Assurance Clement Chan, Chief Operating Officer Mary Joyce Leung and Director & Head of Specialist Advisory Services Kenneth Yeo attended the conference.

Albert Au spoke at the Conference
Back screen: long serving directors at BDO Hong Kong

From right: Albert Au, Mary Joyce Leung, Johnson Kong, Clement Chan

FAREWELL TO SK LO

SK Lo, a director of BDO Hong Kong, retired on 1 October 2013, after more than 30 years' service at the firm.

SK was a guiding light to us whenever we faced challenges during the past three decades. He also saw the firm through three successful mergers to attain its current position as Hong Kong's fifth-largest accounting organisation.

We take this opportunity to thank SK for all his invaluable contributions and his dedication to BDO Hong Kong.

ABOUT NON-COMPLIANT FINANCING ARRANGEMENTS

The PRC's tightened monetary policy has reduced the money supply and consequently increased interest rates in China's capital market. Many Chinese companies are having their conventional loan applications rejected by commercial banks, and a number of them are being forced to borrow from private lenders at four times the prevailing bank interest rate.

Among all the types of financing arrangements, "banker acceptance" (BA) and "overseas loans under domestic guarantee" (OLDGs) are probably the favourite choices of Treasury Officers. That is because of their less-restricted application processes, lower interest charges and potential arbitrage gains. Yes, gaining by borrowing.

While the legitimate use of these instruments can ease the pressure on corporate cash flows, there are always opportunists and speculators who will seek to take advantage of such arrangements by engaging in certain non-complaint acts.

Banker Acceptances〈承兑滙票〉

A BA is a promise to pay in the future that takes the form of a negotiable draft guaranteed by a bank on behalf of a company. Once issued, a BA can be held until maturity, cashed in at a discount before maturity, or transferred to a business partner downstream in the supply chain by way of endorsement.

There is a legal requirement that the issue, settlement and transfer of BAs must be backed by relevant trading activities. In this sense, BAs function like real currency and circulate as a medium of exchange for trading activities in a particular segment of the economy. This could be one reason why banks are willing to undertake the payment obligation and issue the drafts at lower interest rates in the first place.

Abusive application

Generally, companies are required to present relevant trading documents – such as contracts, delivery notes and value-added-tax (VAT) invoices – when they apply for or discount a BA. However, many of them abuse the BA system to obtain excessive funds. That is usually achieved by overstating their trading volume with the help of allied suppliers, usually connected ones.

Figure 1 demonstrates a typical non-compliant BA financing model.

From a compliance perspective, actions such as falsifying trade contracts and issuing and subsequently cancelling extra VAT invoices without underlying trading could perhaps breach the PRC Law on Negotiable Instruments and relevant tax rules.

From an operational perspective, many companies tend to invest these extra funds in risky areas, such as derivative markets, or else spend them without serious consideration. This kind of recklessness is due to the fact that they can be obtained so easily – sometimes effortlessly. But if there is a sudden loss on risky investments, the cash flow chain can easily break, putting the company in an adverse financial position.

Figure 1: Typical non-compliant BA financing model

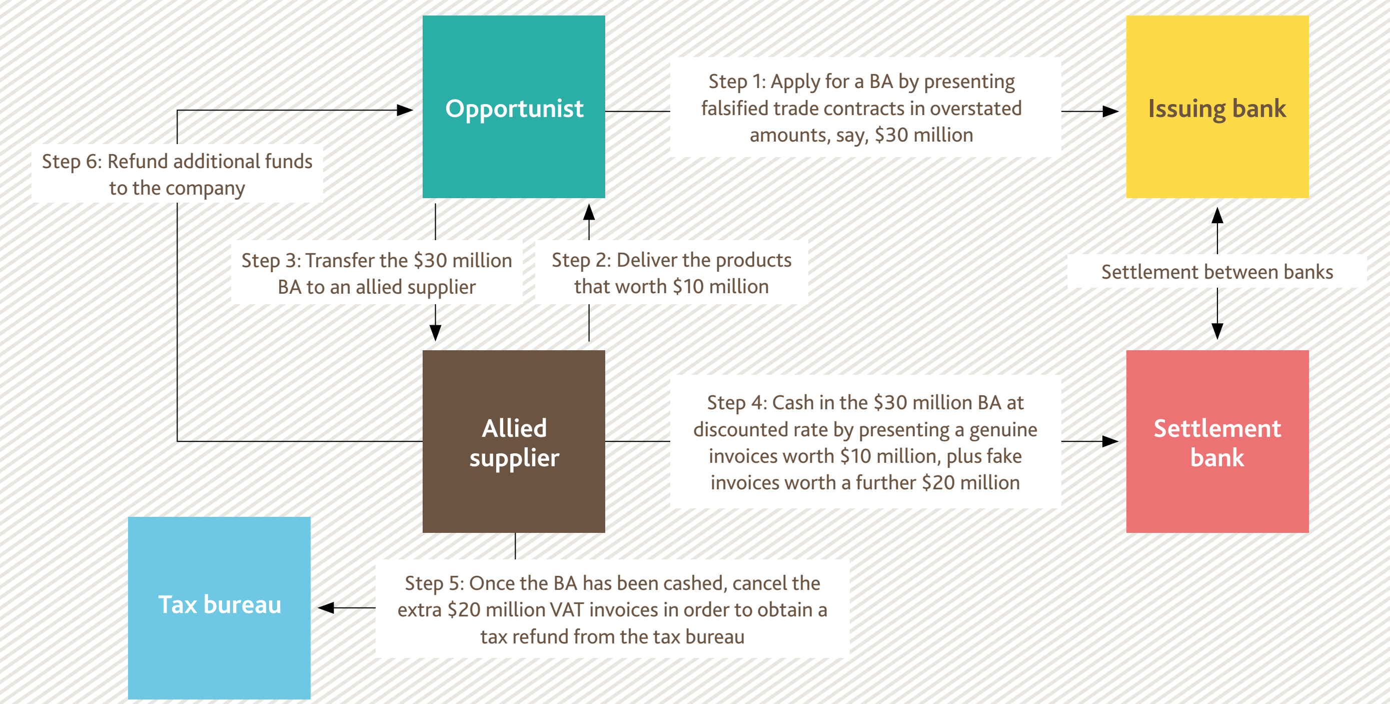
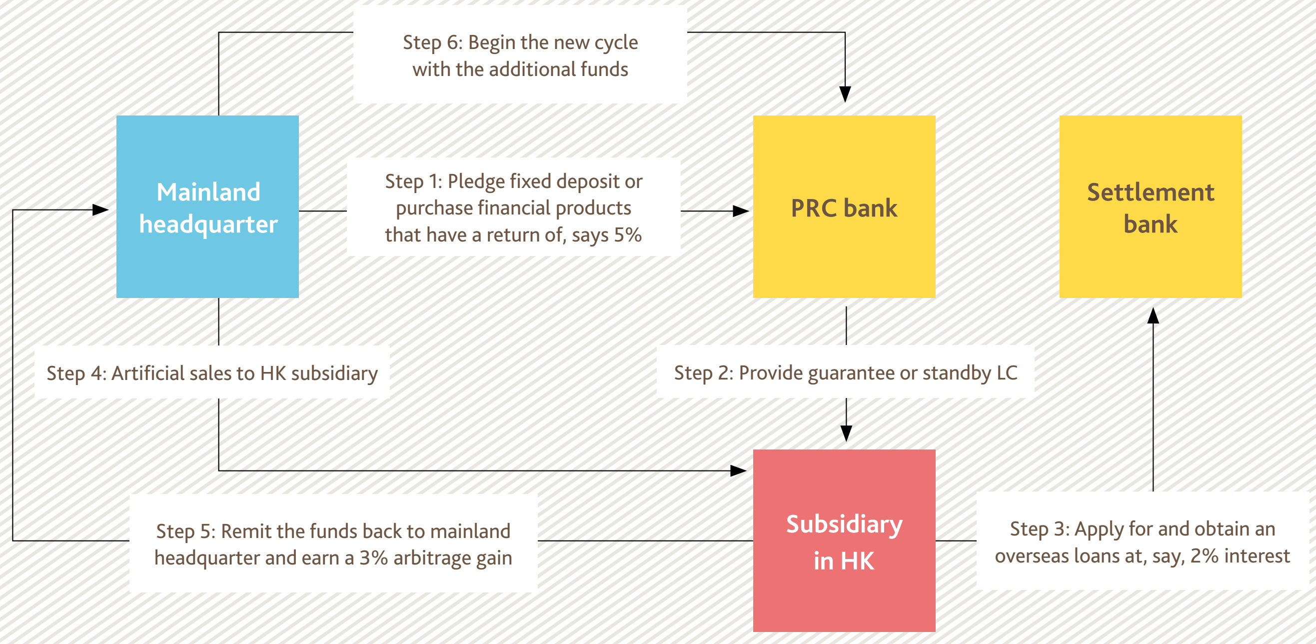


Figure 2: Simplified model of artificial trade under an OLDG arrangement



BA Speculation〈票據倒賣〉
While opportunists go after extra funds, BA speculators seek to exploit differences in interest rates. Some of them establish a shell company to collect BAs at steep discounts from entities that urgently need cash, and then resell them at a favourable rate to a cash-rich company or speculator who is willing to hold them until they mature.

In short, it is a "buy-low-sell-high" model, in which BA speculators live on differences in interest rates. In terms of compliance, speculating in BAs is a serious criminal offence in the PRC.

Overseas Loans under Domestic Guarantee〈內保外貸〉
OLDGs are a form of cross-border financing arrangement. The cycle begins with the mainland company headquarters providing a pledged deposit or purchasing financial products from its PRC bank. In return, the bank issues a bank guarantee or standby letter of credit to the company's overseas subsidiary (usually in Hong Kong), which uses it to obtain an overseas loan from an overseas bank (usually a subsidiary of the PRC bank).

OLDGs have become popular because they generate arbitrage interest and exchange gains. As PRC interest rates are much higher than those in Hong Kong, there is an arbitrage interest gain on the net difference between the higher return from the pledged deposit or financial products with the PRC banks and the lower interest charge on the overseas loan. In addition, the RMB's continuous appreciation creates arbitrage exchange gains.

Artificial trades
An arbitrage gain is quite assured by the international interest-rate divergence, thus giving companies a strong incentive to misuse OLDGs. Some create fictitious export trades with their subsidiaries in order to establish channels for remitting the proceeds of overseas loans across the border to their mainland headquarters. The remitted funds are then re-pledged with PRC banks for more OLDGs, and the cycle is repeated endlessly.

Figure 2 depicts a simplified model of artificial trade under an OLDG arrangement.

The problem with misusing OLDGs is that they put the cart before the horse. The general purpose of financing is to support a business. However, misused OLDGs tend to create trades in order to obtain financing. The underlying issue with those trades is that they are usually transacted without much commercial value. However, it is not easy to distinguish fictional trades from real ones as they are, on paper, supported by relevant logistical and export documents.

These artificial trades are somehow red flagged by:

- OLDG arrangement is the single or major funding source of the subsidiary
- Trading of small-sized, but high valued items (as to avoid unnecessary logistic costs)
- Repetitive trend of trading that comes in same quantity and same item
- Unusually high turnover trade in bond zones（保稅區）

Accounting-wise, artificial trades that are "deemed" supported logistically or contractually, but without commercial substance pose a challenging question to the occurrence and right & obligation assertions. After all, a cart before the horse cannot really move forward for too long.

Concerns
The major concerns of general public and regulators on these non-compliant financing arrangements are:

- The likelihood and magnitude of legal consequences
- The ultimate use of proceeds (for what and by whom)
- The actual sustainability and sufficiency of cash flow given these arrangements are cut off
- The implications of corruption and bribery acts that might occur in the course

For further enquiries about non-compliant financing activities, please contact our Director and Head of Risk Advisory Services Patrick Rozario on (852) 2218 3118 or patrickrozario@bdo.com.hk

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BDO ASIA PACIFIC CORPORATE FINANCE SUMMIT 2013

The BDO Asia Pacific Corporate Finance Summit 2013 was held on 29 November 2013 at Hong Kong Convention and Exhibition Centre. It was a huge success, with a total of 350 local and overseas guests in attendance.

The summit opened with welcoming remarks by the Chairman of BDO Hong Kong, Albert Au, and CEO for Asia Pacific of BDO International network, Stephen Darley. We were also honoured to have the Hong Kong SAR Government's Secretary for Financial Services and the Treasury, Professor KC Chan, as our keynote speaker.

Other speakers included the Agricultural Bank of China International Securities Co-head of Research, Banny Lam; Hong Kong Trade Development Council Deputy Director of Research (Greater China), Pansy Yau; Knight Frank Head of Research & Consultancy, Thomas Lam; LGT Bank Head of Investment Advisory, Simon Grose-Hodge; Sun Hung Kai Financial Investment Strategist & Analyst, Nicholas Studholme-Wilson; and UBS Executive Director, Patrick Ho; as well as speakers from BDO member firms.

Professor KC Chan

Albert Au

Stephen Darley

BDO Hong Kong Director & Head of Specialist Advisory Services Kenneth Yeo

BDO Hong Kong Chief Executive Officer Johnson Kong presenting a souvenir to Banny Lam

Panel discussion session 1 (from left to right): Panel chair Zoran Radosevic, Partner of BDO Australia; Pansy Yau; Zhang Decai, Director of BDO China; Zulfiqar Shivji, Head of Transaction Advisory Services of BDO India; Masaru Murakami, Partner of BDO Japan and Liew Chee Ming, Executive Director of BDO Malaysia

Panel discussion session 2 (from left to right): Panel chair Chay Yiowmin, Partner of BDO Singapore; Nicholas Studholme-Wilson; Thomas Lam; Simon Grose-Hodge and Patrick Ho

Group photo with BDO delegates and guest speakers

INVESTING IN MYANMAR

Myanmar, a country long isolated, is awakening. In recent times, sweeping changes in the economic and political climate in Myanmar have resulted in the easing of economic sanctions by major economies such as the United States of America and Europe. These changes bring immense opportunities for those looking to invest in Myanmar.

Myanmar, country rich in natural resources, recorded a GDP growth of 6.3% in 2012 and is forecasted to grow at 6.5% and 6.7% in 2013 and 2014 respectively (*source: Asian Development Bank*). The main economy of Myanmar is currently the extractive industries, particularly oil and gas as well as mining. Easing of economic sanctions would lead to higher levels of economic activities and investment in the future as well as facilitating the birth of new industries in Myanmar.

Forms of business in Myanmar

The common forms of business for foreign investment or business in Myanmar are as follows:

- Limited liability company with 100% foreign ownership;
- Branch or representative office; and
- Joint venture.

Companies are registered by foreign investors under the Myanmar Companies Act (MCA) or Foreign Investment Law (FIL). The differences between these two laws are:

- Companies registered under the FIL are eligible for tax incentive;
- Under the FIL, companies are allowed to undertake manufacturing activities and provide services whereas under the MCA, companies are allowed to provide only services; and
- Different minimum foreign share capital requirements.

The minimum foreign share capital for companies registered under the FIL is not provided for in the FIL, however, the conditions of permit require a minimum capital requirement of US$150,000 and $50,000 for manufacturing and service companies respectively. Under the MCA, the minimum capital requirement is US$50,000 for service companies.

Registration of companies under the FIL would involve the following:

- Getting a permit from the Myanmar Investment Commission (MIC);
- Obtaining a permit to trade from the Directorate of Investment and Company Administration (DICA); and
- Registration with the Companies Registration Office (CRO).

As part of the registration process of a company, 50% of the capital must be deposited into a bank in Myanmar after receiving the temporary certificates such as Permit and Incorporation certificate. The remaining 50% must be brought into Myanmar within a specified period, ranging from one to five years.

Investment incentives

For companies registered under the FIL, the MIC may grant certain incentives, such as:

- Income tax exemption for up to five consecutive years for manufacturing or services companies, which may be extended by the MIC depending on the progress of the business;
- Income tax exemption or relief on profits of the business that are maintained in a reserve fund and subsequently re-invested within one year after the reserve fund is made;
- Accelerated depreciation of machinery, equipment, building or other capital assets used in the business;
- For exported goods, relief from income tax of up to 50% from the profits derived;
- Payment of income tax on the income of the foreign employees similar to rates applicable to Myanmar citizens;
- Tax deduction on research and development expenses incurred in relation to the business;
- Carry forward and set off of losses for up to three consecutive years from the year the loss is incurred; and
- Exemption or relief from customs duty or other internal taxes on machinery equipment, instruments, machinery components, spare parts and materials used in the business, and items which are imported and required to be used during the construction period of the business as well as on imported raw materials for the first three years of commercial production following the completion of construction.

In addition to foreign investment under the FIL, foreign investors investing in the Special Economic Zones (SEZ) are also entitled to investment incentives.

Key steps

Foreign investors keen to invest in Myanmar should be aware of the following key steps to be undertaken:

- Define the intended business activity to be undertaken in Myanmar.
- Identify the relevant ministries / authorities in charge of the business activity.
- Establish contact with and endorsement by the relevant ministries/authorities in relation to the investment applications; and
- Determine the appropriate entity to be established in Myanmar.

Help for setting up

BDO provides an extensive range of professional services including assurance, business services, risk advisory services, specialist advisory services and taxation. Whether you want to start a new business or expand your existing business in Hong Kong or elsewhere, equipped with over 30 years' experience in helping business setup, BDO can be your trusted advisor to assist you in navigating the landscape using our local knowledge complemented by our global presence.

For further information on business establishment, please contact Teresa Lau, Director and Head of Corporate Secretarial Services of BDO Hong Kong on (852) 2218 8273 or teresalau@bdo.com.hk; or Lim Seng Siew, International Liaison Partner of BDO Myanmar on (603) 2616 3001 or sslim@bdo.my for setting up in Myanmar.

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BDO GLOBAL NETWORK DEVELOPMENT AT A GLANCE

BDO appoints new member firm in Liechtenstein

BDO has appointed a new member firm in Liechtenstein, effective 20 September 2013.

BDO Liechtenstein was known formerly as Pro Finance International (PFI), a firm established by the current managing partner, Herbert Bischof, in 2007. With a total headcount of 14, including five partners, the firm has grown significantly since its founding, and particularly in the last two years: projected revenues for 2013 are €2 million. Their base is in Schaan and they will have a presence in Vaduz from 2014 onwards.

BDO establishes presence in Myanmar and Brunei

BDO has expanded its presence in ASEAN following the addition of JF Group in Myanmar and Sylvester Leong & Co in Brunei to the network. Both firms will now operate under the BDO name in their respective countries.

JF Group is led by Mr Wan Tin and was established in Yangon in 1990. It provides audit, accounting and financial consultancy services. Mr Wan is a central executive committee member of the Myanmar Institute of Certified Public Accountants and was formerly with U Hla Tun & Associates Limited, PwC's representative firm in Myanmar.

Sylvester Leong & Co is one of the larger chartered accountancy firms in Brunei, with partners and staff having many years' experience among them. The firm will complement BDO Consulting (B) Sdn Bhd, which was set up in 2012 to provide advisory services.

BDO announces appointment of new member firm in French Polynesia

BDO has appointed a new member firm in French Polynesia, effective 1 November 2013. The new BDO French Polynesia, formerly FITEC, was established in 1973 and remained independent until joining Coopers & Lybrand in 1981, which merged to become PwC in 1998. The firm has an excellent reputation in the local market and has seen steady growth year on year: revenues for 2013 are projected to be over €4 million.

The primary services provided by the firm are audit and accounting, tax compliance and legal secretarial services. The local government also approved them as an official training centre last year. Operating out of one office in Papeete with 44 partners and staff, the firm's clients include a high percentage of the island's top 20 companies, operating in the areas of tourism, banking and financial services, retail, transport and construction.

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