

BDO LIMITED TRANSPARENCY REPORT 2013

31 December 2013

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BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

LETTER FROM THE CEO

I am pleased to present our first transparency report prepared in accordance with the requirements of Article 40 of Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts.

Audit is the largest service line in our business. Our commitment to exceptional client service has no compromise. Audit is not a static process and we recognise the need to offer our clients the best possible services and therefore ensure the continual development and enhancement of our range of audit tools. BDO's methodologies, tool and guidance are developed with our clients in mind and promptly reflect external developments.

In the past year, there have been comments about the need to heighten audit oversight due to the corporate accounting scandals in the recent years. I have no doubt that we, as a major accounting firm in Hong Kong, have a responsibility to help and restore the public confidence through heightening the quality of our work.

In fact, as a firm, we are always committed to audit quality and professionalism across different lines of services and that have made us one of the most reputable accounting firms in Hong Kong over the past 33 years. It is our core strategy and we will continue to deliver exceptional client service through high quality of work.

Johnson Kong
Chief Executive Officer
BDO Limited
31 December 2013

LETTER FROM THE MANAGING DIRECTOR - ASSURANCE

The audit profession has been facing significant pressure due to the heightening expectation from the general public. The pressure will be even higher due to the audit regulatory reform. I foresee that there will be more stringent rules and regulations introduced on audit oversight and/or significant change in the existing rules in the areas of registration, inspection, investigation, enforcement, standard setting and continuing professional education.

It is agreed that a full and accurate set of financial statements is utmost important for stakeholders to understand the financial well-being of a company. As the business and financial operations of companies become increasingly complicated, it is important that the economic value of companies and their various operational components are transparent. High quality "true and fair" financial statements are essential for a market-based economy, as stakeholders rely on them as the basis for valuation and decision-making. However, there should be a more balanced view between the audit profession and the financial statements users/ stakeholders.

BDO Limited, as a major accounting firm in Hong Kong, has been providing our insight into the development of audit profession. I will represent our firm to bring our experience and knowledge to participate in the audit regulatory reform.

In November 2013, we provided our written comments to the Hong Kong Institute of Certified Public Accountants (HKICPA) on the Regulatory Framework for Listed Company with Information Paper and Request for Comment. In general, we support for a regulatory reform whose ultimate aim is to improve the audit quality of financial reporting of listed companies in Hong Kong and to protect public interest. At the same time, we urged the HKICPA to urgently deal with Professional Liability Reform concurrently with the Hong Kong SAR Government, as it now does on regulatory reform of public company auditors.

Clement Chan
Managing Director - Assurance
BDO Limited
31 December 2013

LEGAL STRUCTURE AND OWNERSHIP

BDO Limited, a firm of certified public accountants registered with the Hong Kong Institute of Certified Public Accountants, is a limited liability company, incorporated in Hong Kong and is owned by its members who are also directors of the company.

Since our establishment in 1981, we have committed ourselves to facilitating the growth of businesses by advising the people behind them. As part of the international BDO network, we play a significant role in BDO's operation in Asia Pacific. We combine international expertise with the region's best available business and advisory services. By acting locally while thinking globally, we continue to provide truly customised services to local enterprises and multinational corporations alike.

BDO Limited is the Hong Kong member firm of the BDO Network, which is the world's fifth largest accounting network. Each member firm of the BDO Network is a separate legal entity and has no liability for another such entity's acts or omissions.

Our professionals are well-versed in accounting and auditing standards, tax and investment regulations prevailing in Hong Kong, mainland China as well as other major countries. We conform to the highest international standards.

BDO Limited is principally engaged in the provision of audit and assurance services. Through our affiliates, BDO Hong Kong is engaged in the provision of a wide range of other professional services, which include:

- Business Services
- Risk Advisory Services
- Specialist Advisory Services
- Tax Services

NETWORK

The BDO network aims to deliver exceptional client service through:

- Anticipating client needs and being forthright in our views to ensure the best outcome for them
- Being clear, open and swift in our communication
- Agreeing to and meeting our commitments
- Providing the right environment for our people and the right people for our clients and
- Creating value through giving clients up to date ideas and valuable insight and advice they can trust

Description of the network

BDO is an international network of public accounting firms, the BDO Member Firms, which perform professional services under the name and style of BDO. BDO is the brand name for the BDO network and all BDO Member Firms. BDO is a registered trademark of Stichting BDO. Stichting BDO is a Dutch Foundation whose registered office is in Eindhoven. The objects of the foundation are:

- To promote high standards of auditing, accountancy, financial, fiscal and business advice throughout the world by the use of the business name BDO and the development of the BDO network
- To own and protect any and all rights to the name BDO its accompanying logo and styles and any other intellectual property and rights and
- To grant licenses to use the BDO name

Legal and structural arrangements in the network

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, either as a voting member (one per country) or non-voting member. The BDO network is governed by the Council, the Global Board and the Executive (or Global Leadership Team) of BDO International Limited.

The Council comprises one representative from each voting member and includes the members of BDO International Limited in general meeting. The Council approves budgets, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited.

The Global Board, which is the Board of Directors of BDO International Limited, currently comprises a representative of the network's sixth largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets policies and priorities for the network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year and more if required. The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, People, Client Service, Network Development and the International Secretary.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels. BDO International Limited and Brussels Worldwide Services BVBA do not provide any professional services to clients. This is the sole preserve of the BDO Member Firms.

Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms of the BDO network is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.

Governance of the network

The BDO network is governed by the Council, the Global Board and the Executive (or Global Leadership Team) of BDO International Limited.

The Council comprises one representative from each voting member and represents the members of BDO International Limited in general meeting. The Council approves budgets, appoints the Global Board and approves any changes in the Articles and Regulations of BDO International Limited. The Council meets annually.

The Global Board, which is the Board of Directors of BDO International Limited, currently comprises a representative of the network's six largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets policies and priorities for the network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year and more if required.

The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the Chief Executive Officer (CEO) and comprises the Global Heads of Audit and Accounting, Tax, Advisory, People, Clients and Markets, Network Development, the CEO Europe, the CEO Asia Pacific, the CEO Americas and the Head of the Brussels Worldwide Services BVBA Legal Department. The Global Board elects a CEO to hold office for a term as may be specified by the Global Board. The CEO appoints the Global Leadership Team, with the prior approval of the Global Board. There is no limit to the number of terms that an individual may serve on the Global Leadership Team. The Global Leadership Team meets monthly.

International committees comprising professionals from BDO Member Firms and/or of Brussels Worldwide Services BVBA report to the respective members of the Global Leadership Team, the CEO and/or the Global Board. The international committees produce materials, guidelines to serve the needs of BDO Member Firms.

The main committees are:

- Audit Steering Committee
- Tax Advisory Committee
- Advisory Leadership Group
- International Corporate Finance Group
- International Risk Management Committee
- International Brand & Marketing Committee
- International Human Resources & Development Committee
- International IT Committee

The committees are complemented by various other sub-groups, task forces and working parties.

Size of network

The global aggregated turnover for BDO Member Firms (including their exclusive Alliances) for the year ended 30 September 2013 was in excess of US\$6.5 billion. At 30 September 2013, the BDO network has member firms operating in 144 countries with 1,264 offices. At 30 September 2013, the BDO network had almost 56,400 partners and staff.

Key features of the member firm network agreement

Each BDO Member Firm is an independent legal entity and profits are not shared between member firms. All BDO Member Firm client engagements - whether for domestic work, referred work from other firms in the network, or international work sourced from non-BDO sources conducted in the name of the local BDO Member Firm.

Membership of the network confers certain rights on BDO Member Firms, as well as certain obligations. Rights include the use of the BDO brand, including the network name and logo, the ability to refer work to and from other BDO Member Firms and a wide range of resources. Obligations include the capability to offer the minimum core services, including accounting and auditing, taxation and specialist advisory services, and a high standard of professionalism and ethics.

The International Liaison Partner in each member firm facilitates international referrals and the smooth running of projects and relationships to ensure clients receive an integrated service.

Operations carried out centrally

At the direction of the Global Board, the CEO and the Global Leadership Team, operations including but not limited to those noted below are carried out centrally for the BDO network:

- Register, maintain and defend BDO's intellectual property rights
- Enter into worldwide agreements on behalf of BDO Member Firms, such as software licenses
- Develop and maintain BDO Audit Approach and software
- Coordinate the involvement of the BDO network in various large audit network groupings and international professional bodies

- Coordinate and submit network responses to certain consultations by regulators and policy makers in areas such as audit regulation, proposed technical standards, accounting issues generally and corporate governance
- Develop, organise and run training in audit, tax, advisory, human resources and IT
- Facilitate and support strategic secondments between member firms
- Organise and run conferences (international and regional)
- Carry out pre-admission reviews of candidate member firms
- Carry out quality assurance reviews
- Conduct the BDO Member Firm accreditation process
- Support member firm business lines (audit, accounting, tax and advisory) through international committees, global and regional Heads and Advisers
- Provide BDO Member Firms with access to IFRS support including BDO IFR (International Financial Reporting) Advisory Services
- Maintain and promote the BDO intranet and BDO international website
- Develop a corporate visual identity and an online brand centre with guidelines, templates and material for member firm publications and
- Publish and distribute the international directory of BDO Member Firms.

GOVERNANCE STRUCTURE

Leadership Team

The Leadership Team (LT) is responsible for the execution of our strategy as laid down by the Executive Board, and for the day-to-day operations. The LT is assisted by Functional and Service Line Heads in executing our strategy and administering the day-to-day operations. The Leadership Team members are appointed by the Executive Board.



ALBERT AU - Chairman

Albert is the Chairman of the Firm. He has more than 30 years of experience in the accountancy profession. As International Liaison Partner, Albert is in constant communication with many BDO offices round the globe looking after the service needs of inbound and outbound BDO clients.

Albert is a past president of the Hong Kong Institute of Certified Public Accountants (2008) and currently represents the Institute as a member of the Small & Medium Practices Committee of the International Federation of Accountants, the global organisation for the accountancy profession.



JOHNSON KONG - Chief Executive Officer

Johnson has 30 years of professional accounting experience. He specialises in financial investigation, due diligence, litigation support, restructuring, receivership and insolvency related assignments. He sets the strategy and policies for the Firm, which needs to be approved by the Executive Board and executes the strategy and policies approved by the Executive Board.

In addition to being the CEO of the Firm, as an International Liaison Partner, Johnson is in constant communication with many BDO offices round the globe looking after the service needs of inbound and outbound BDO clients.



CLEMENT CHAN - Managing Director - Assurance

Clement is the President of the Hong Kong Institute of Certified Public Accountants. He has actively participated in standards setting and governance activities of the Institute. In addition, Clement is the Chairman of Financial Reporting Standards Committee and Audit Profession Reform Working Group.

Clement as the Managing Director of the Firm is to execute and implement Firm's business plan and provide support and backup to the Chairman & CEO in discharging his duties.



MARY JOYCE LEUNG - Chief Operating Officer

Mary Joyce Leung has over 30 years of accounting and assurance experience in Hong Kong and Canada. Mary Joyce started her professional career in BDO Canada in 1978 and was transferred to head BDO Binder in Hong Kong after seven years. Prior to the appointment as the Director of Resource Management in 2005 and as COO in 2011, Mary Joyce's main responsibilities were in the areas of assurance and financial advisory services, serving both privately-held and publicly traded clients. Her past exposure provided her with extensive experience in dealing with various business sectors and especially in servicing multinational corporations.

In her current role, Mary Joyce mainly oversees the Firm's corporate services such as human resources management, financial management, IT and marketing services.

Executive Board

The Executive Board (EB) is collectively responsible for setting the Firm's business strategy and policies, its proper implementation and the maintenance of quality standards in all aspects of the Firm. Also, the EB is responsible for the overall administration of the Firm and adopts rules of procedures in conducting its affairs to enhance accountability and transparency.

The EB is consisted of the LT and the following members:



ANDREW LAM is an assurance director of the Firm. Andrew is an Assurance Director and also responsible for marketing function. He has extensive experience in initial public offering exercises in Hong Kong and overseas stock exchanges. He has assisted numerous companies to list on stock exchanges in Hong Kong, Singapore and other overseas financial centres. Andrew's other areas of expertise include financial due diligence as well as corporate mergers and acquisitions. He is also active in providing statutory assurance work to companies listed locally and abroad.

Andrew's clients mainly operate in Hong Kong and Mainland China, covering industries such as manufacturing, trading, construction and real estate, high technology, leisure, service, pharmaceutical and food-processing.



DANIEL LEE is an assurance director of the Firm. Daniel is currently a member of the Chinese People's Political Consultative Conference Hainan Committee 海南省政協委員 and Council Member of The Taxation Institute of Hong Kong.

Daniel has over 25 years of assurance and business advisory experience. He has extensive experience in listed company audits and fund raising advisory for a spectrum of industries, including financial services, investment funds, education, biotechnology & pharmaceutical, property development, IT & telecommunication, retailing and manufacturing.

He is a regular speaker at fund-raising conferences and public listing forums in Hong Kong, Taiwan and mainland China.



JONATHAN LEONG is an assurance director of the Firm. Jonathan has extensive experience in dealing with a wide range of Hong Kong based companies, from small local entrepreneurial organisations to large international trading and manufacturing companies, as well as companies listed on the Hong Kong Stock Exchange. He also provides support to companies from business planning and implementation to the raising of finance, and assists clients with corporate advisory matters such as public company flotation, mergers and acquisitions, due diligence reviews and corporate restructuring.



FANNY LI is an assurance director of the Firm. Fanny's major responsibility in the area of assurance services. Currently, she is engagement partner for a number of major public companies with substantial investments in the real estate markets in China.

Fanny has over 20 years of audit and accounting experience in Hong Kong, PRC and the United Kingdom. She has both commercial and professional experiences in handling due diligence reviews for business operations; profit forecasts on business sales and disposals; corporate restructuring and initial public offerings advisory for clients in Hong Kong Stock Exchange.

Fanny also has extensive involvement with initial and secondary public offerings for listings in Hong Kong and the US and reverse takeovers by Taiwanese and PRC companies of Nasdaq OTCBB companies. Fanny has in-depth knowledge and experience with SEC financial reporting requirements.



HONG NG is an assurance director who is also responsible for the resource management of the Assurance Department.

Hong has nearly 30 years of experience in the accountancy profession. Hong qualified with the now BDO UK in 1985. He is a member of the Institute of Chartered Accountants in England and Wales as well as the City and Guild Institute in London.

Hong serves in many social communities. He is the auditor of the

Hong Kong Society of Paediatric Dentistry and auditor of several charitable and not-for-profit organisations in Hong Kong.



DOROTHY PAK is the Head of Outsourcing Services.

Dorothy heads the outsourcing service division and leads engagements in accounting, statutory accounts preparation, payroll, HR administrative support and expatriate services.

Dorothy has over 30 years of experience in accounting and other business process outsourcing services. Her portfolio of clients include multinational corporations, SFC regulated companies as well as small-to-medium sized companies which are in diverse industries, including information technology, general trading, retailing, investment and property holding, and non-profit making bodies.



PATRICK ROZARIO is the Head of Risk Advisory Services.

Patrick heads up the risk advisory services division to help our clients manage their risks.

Patrick has over 20 years of experiences working for large international accounting firms and in the commercial sector. Patrick has many years of experience working in the area of risk consulting. Patrick managed various internal audits, corporate governance, Sarbanes-Oxley, internal control, information technology risk assurance advisory engagements for clients across different industries including manufacturing, telecommunication, government, insurance and banking in Hong Kong and China. Patrick also worked in the commercial sector. He was the project manager of a number of large scale business process re-engineering and information systems implementation projects in the Asia Pacific Region and in North America.



KATHERINE YEUNG is the Head of Tax.

Katherine started her career with the Hong Kong Inland Revenue Department where she gained extensive experience in corporation tax and individual tax.

Katherine has about 30 years of experience in providing Hong Kong and International Tax consulting and compliance services to local and multinational clients. She specialises in tax planning for group re-structuring, pre-listing tax planning, due diligence in merger and acquisition, transfer pricing and tax investigation. She also specialises in handling individual tax planning for travelling expatriates working from Hong Kong and China.



LESLEY YEUNG is the Head of Assurance.

Lesley is a director of the Firm with major responsibility in the area of assurance services.

Lesley has over 25 years of public accounting experience, serving both publicly-traded and privately-held organisations. Her clients include both local companies as well as multinationals. Her professional involvement spans a broad scope of industries with companies engaged in manufacturing, distribution, retailing, shipping, construction, software development, healthcare and charitable organisations. Her experience includes statutory audits, initial public offerings, due diligence reviews and business consulting. She is also experienced in handling global practice clients in various industries, leading and coordinating global assignments.

Risk Management Committee (RMC)

RMC is responsible for:

- Evaluating the risks faced by us and identifying and implementing such actions as are appropriate to mitigate these risks
- Formulating and implementing the risk management policies and procedures and ensuring the compliance of directors and members of staff with those policies and procedures. These policies and procedures shall include the requirements of the IFAC Code of Ethics for Professional Accountants and such other ethical regulations and requirements applicable to us
- Promoting a culture of risk awareness and consultation and being the primary point of contact for risk issues no matter their nature and source

RMC meets monthly with responsibility for considering the various areas of risk relevant to us including the areas of responsibility of the risk management and such other risk topics that are considered appropriate from time to time.

The RMC members are, as follows:

Name	Title
Stephen Chan (Chair)	Head of Risk
Albert Au	Chairman
Johnson Kong	Chief Executive Officer
Clement Chan	Managing Director - Assurance
Simon Riley	Head of Professional Services
Cecilia Yam	Head of Quality Assurance
Lesley Yeung	Head of Assurance
Ringo Chiu	Assurance Director
Jonathan Leong	Assurance Director
Hong Ng	Assurance Director

New Client Acceptance Panel (NCAP)

NCAP plays a pivotal role in the client and engagement acceptance process. We have robust client and engagement acceptance procedures in place to ensure that we are only associated with good quality client and we only take on engagements that we are competent in delivering quality services.

The client and engagement acceptance procedures include:

- Consideration of the client's business including its geographical spread and the industry it operates in;
- Evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
- Considering information regarding the character and reputation of the prospective client and key personnel;
- Assessment of potential independence risks and potential conflicts of interest;
- If relevant, inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment;
- Assessment of our ability to serve the prospective client; and
- Reviewing filings of the company, including prior year financial statements.

The NCAP members are, as follows:

Name	Title
Stephen Chan (Chair)	Head of Risk
Albert Au	Chairman
Johnson Kong	Chief Executive Officer
Clement Chan	Managing Director - Assurance
Simon Riley	Head of Professional Services
Cecilia Yam	Head of Quality Assurance
Lesley Yeung	Head of Assurance
Ringo Chiu	Assurance Director
Peter Chow	Assurance Director
Hong Ng	Assurance Director
Fanny Li	Assurance Director

INTERNAL QUALITY CONTROL SYSTEM

Our system of internal quality control is designed to provide reasonable assurance that we, its directors and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by us are appropriate.

We consider that such systems are compliant with all applicable standards, such as the HKICPA's Hong Kong Standard on Quality Control 1 and IAASB's International Standard on Quality Control 1.

Our system of internal quality control can be split into the following elements:

- a. Leadership responsibilities for quality
- b. Ethical requirements
- c. Acceptance and continuance of client relationships and specific engagements
- d. Human resources
- e. Engagement performance
- f. Monitoring

a. Leadership responsibilities for quality

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

It is a fundamental Firm value that partners/directors and staff act with honesty, integrity and a commitment to high quality work. Failure to act this way will not be tolerated and will result in disciplinary action.

The Leadership Team and the whole firm are committed to quality work, the public interest and professional judgement and our values of:

- Honesty and integrity
- Taking personal responsibility
- Mutual support and
- Strong and personal client relationship

We have clearly established responsibilities for the Chief Executive Officer (CEO), the directors, and other senior personnel. The CEO and the Leadership Team devises and implements our business strategy and manages operational issues.

Along with our management, the Head of Technical and Training reinforces the appropriate “tone at the top” by instilling professional and ethical values and is also responsible for the following:

- Develop assurance methodology and guidance to ensure compliance with auditing standards;
- Maintain our technical manuals and communicating developments to our directors and staff;
- Help maintain our assurance practice at the highest standards prevailing in the profession;
- Consult with directors and other network professionals seeking technical advice; and
- Oversee our technical continuing professional education programmes.

b. Ethical requirements

Our policies relating to ethical conduct are set out on detailed pages on our intranet and in the BDO HK Quality Assurance Manual. We expect its members to act with honesty and integrity and to conduct themselves with an appropriate level of professional deportment. Non-compliance with our policies and procedures will result in various appropriate actions, including disciplinary action.

We and its members will act in utmost integrity. This will require that we only associate itself with businesses and individuals of integrity. Our policy of client and engagement acceptance therefore requires that the integrity of individuals and businesses for which we intend to act be considered.

c. Acceptance and continuance of client relationships and specific engagements

Robust client and engagement acceptance procedures play a pivotal role in our ability to deliver professional and quality services.

Before we enter into a relationship with any prospective client, and throughout our relationship with any client, we gain and document knowledge about the client and the risks our association with them.

In addition to fulfilling legal and regulatory requirements, understanding our clients and risks is essential to our ability to deliver exceptional client service.

The acceptance of all clients requires an approval process that is appropriate to the perceived risk. Public Interest Entity audit clients require pre-approval by the New Client Acceptance Panel.

d. Human resources

Our people are a critical factor in our ability to provide exceptional client service and audit quality. To ensure that we have sufficient staff with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements we have established clear policies and procedures addressing the following areas:

- Recruitment
- Performance development
- Capabilities and competence
- Career development and progression
- Resource management

Recruitment

Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate attributes to enable them to deliver high quality service and perform their duties with professional competence.

We work actively to ensure we have an inclusive culture where everyone has an opportunity to develop and progress regardless of their differences. Inclusivity within the organisation strengthens our values, makes us more representative and more capable of providing quality professional service.

We seek people with high levels of intelligence, stability, maturity, integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being hired.

We continuously seek, and adopt, the most up to date and relevant recruitment selection tools and processes which aim to improve the quality and fit of those joining us.

We work proactively to source a high number of vacancies via direct resourcing channels including universities in Hong Kong and overseas and continuously re-evaluate our HR management regularly reviews all recruitment policies and procedures to ensure that they are appropriate and are operating effectively.

Performance development

The purpose of Performance Appraisal is to facilitate performance management, and provide the all levels of staff (including the director) a formal two-way communication channel to discuss the staff's performance. Through the Appraisal, staff can understand the Company's expectations on their performance, and to what extent that they have achieved such expectations. Training and development needs of the staff can also be identified through the process. This is an essential process to enhance the staff's professional development and competency.

The Appraisal System is designed and implemented based on the principle of transparency and objectivity, and minimising personal prejudice and subjectivity.

Continuous assessment is believed as one of the methods to meet this purpose.

Appraisees can also benefit from continuous assessment through timely performance feedback from their supervisor in order to make appropriate improvement, if necessary.

Reviews are also completed on an assignment-by-assignment basis by trainees and audit seniors as well as at six month intervals. The factors evaluated (which may vary by level) include work performance and general contribution, professional and technical competence, and other core competences required for the execution of their duties.

Capabilities and competence

Policies and procedures for assigning our people to engagements are designed such that only those persons having adequate technical proficiency and competence will perform the work, taking into account the size, nature and complexity of each engagement. Technical training is provided by our Technical and Training Department which including online and traditional classroom based delivery mechanisms. The learning outcomes for these training programmes are reviewed annually and against the role requirements at each grade.

Career development and progression

We address career development on an individual basis. Our people are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

For a promotion to be awarded, the individual must have demonstrated attainment of the competences required for that role. In addition, promotion to the roles of Principal and Director are subject to demonstration of the competences via assessment centres and technical interviews.

Non-compliance with our policies and professional standards is also identified through internal and external reviews. Lack of compliance is responded to by additional training, delays in promotion or through dismissal for serious instances of non-compliance.

Resource management

We recognise that ultimately it is the ability and commitment of our people that really makes a difference and enables us to deliver a quality audit. Given this, our ability to attract the right number of high quality people is of utmost importance. We determine our resource requirements 12 to 18 months in advance factoring in current and future client needs so as to continue to maintain audit quality.

e. Engagement performance

Common approach

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that we issue reports that are appropriate in the circumstances. To achieve this and to ensure consistency in the approach to auditing, we have contributed to the development of the common BDO Audit Approach, related software tools and other standard forms of documentation. This approach is fully compliant with International Standards on Auditing and these common processes are used by BDO Member Firms.

The BDO Audit Approach is scalable and designed to be applied to all entities, whether small or large, to ensure that all audits are carried out to a consistently high standard. The successful application of the BDO Audit Approach depends on its intelligent application throughout the audit process by our people, drawing on our knowledge, experience and support mechanisms. In carrying out our work we observe the following principles:

- Independence and objectivity
- Diligence
- Professional judgement
- Professional scepticism

Supervision and review

We require all professional work to be supervised by those people who have appropriate knowledge and experience. It is the responsibility of the relevant Engagement Director to ensure that related risks are identified and that decisions are taken by those with an appropriate level of experience. The relevant engagement Director must also ensure that professional work is carried out efficiently, with appropriate scepticism, and that it meets our standards in all respects.

The Engagement Director shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient and appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued and that the audit has been carried out in accordance with our policies and procedures. The RI is ultimately responsible for ensuring that all material or potentially material matters or issues raised during the audit are satisfactorily resolved and documented in the working papers.

An engagement quality control review is performed for audits of public interest entities and other high risk engagements.

This review is performed by an assurance director other than the engagement director. The engagement quality control reviewer possesses the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the person who has overall responsibility for the same type of engagement, and be knowledgeable and familiar with the client's industry, but will be independent from the client's audit team. They would ordinarily be an experienced assurance director and not likely to be unduly influenced by the views of a particular audit engagement director. The engagement quality control reviewer cannot be actively involved in making ongoing decisions relating to the engagement and will not be involved in performing the engagement.

Engagement quality control reviewers are selected by Head of Quality Assurance from a list of approved reviewers, as determined by the Head of Assurance.

Consultation

Our culture of openness encourages consultation with experienced directors and other specialists where appropriate in order to achieve quality outcomes that properly take into account the public interest.

We have a process in place for assurance directors and teams to follow when consulting and seeking a 'firm' opinion, support on a client issue, judgement or risk.

f. Monitoring

Our policies and procedures concerning monitoring activities are designed to give us reasonable assurance that our internal quality control system is operating effectively and is being complied with in practice.

Our quality control system includes an annual cold review process of audit files (the Internal Quality Control Review programme) to monitor compliance with our policies, procedures and standards and to ensure that the work done to arrive at an opinion is both adequate and properly documented.

The review consists of reviewing, on a sample basis, the working papers and reports of selected audit engagements and documentation of compliance with our quality control policies and procedures in other areas. The sample is selected to ensure that each assurance director is subject to review at least once every three years.

Quality Assurance Department is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions. The process is managed by Head of Quality Assurance and review team is also headed by the Head of Quality Assurance.

Briefing sessions are given to all review team leaders and selected review team members. In advance of the review, instructions are issued to the reviewers, which include:

- The objectives of the process
- A checklist
- Appropriate guidance
- Reporting templates

EXECUTIVE BOARD STATEMENT ON EFFECTIVENESS OF FUNCTIONING

These policies, procedures and monitoring activities have provided our Executive Board with reasonable assurance that we, its directors and staff have materially complied with applicable professional, regulatory and legal requirements, that work has been performed to a consistently high standard and that appropriate reports have been issued.

The Executive Board is satisfied that our system of internal control allows us to identify crucial areas where improvements may be necessary.

The Executive Board has inter alia considered the results of the reviews performed internally and externally by BDO International and HKICPA in reaching this opinion.

MONITORING OF QUALITY CONTROL

The last completed quality assurance review (known as practice review) performed by HKICPA was in August 2013 with no follow-up action being required. The review result is, however, not publicly available.

PUBLIC INTEREST ENTITIES

Public interest entities as defined under paragraph 290.25 of Code of Ethics for Professional Accountants are:

- (a) All listed entities; and
- (b) Any entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities 1b. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

We do not determine additional entities to be classified as public interest entities other than those falls within the above definition.

In the financial year ended 30 September 2013, we performed statutory audits of the following public interest entities:

Companies listed in Hong Kong or elsewhere:

1010 Printing Group Limited	Advanced Card Systems Holdings Limited
Agritrade Resources Limited	Allied Overseas Limited
AMCO United Holding Limited	Anxin-China Holdings Limited
Asia Energy Logistics Group Limited	Branding China Group Limited
Century Legend (Holdings) Limited	Chanco International Group Limited
Changshouhua Food Company Limited	Cheong Ming Investments Limited
China Assurance Finance Group Limited	China Bio-Med Regeneration Technology Limited
China Boon Holdings Limited	China Chengtong Development Group Limited
China Energy Development Holdings Limited	China Financial Leasing Group Limited
China Fortune Holdings Limited	China Haidian Holdings Limited
China Investment Development Limited	China Kangda Food Company Limited
China Lumena New Materials Corp	China Nonferrous Metals Company Limited
China Overseas Grand Oceans Group Limited	China Primary Resources Holdings Limited

China Print Power Group Limited	China Resources and Transportation Group Limited
China Sandi Holdings Limited	China Water Affairs Group Limited
China.com Inc.	Cinderella Media Group Limited
Combest Holdings Limited	Continental Holdings Limited
Crosby Capital Limited	Culture Landmark Investment Limited
Dahe Media Co., Ltd.	Datronix Holdings Limited
Eagle Legend Asia Limited	Eco-Tek Holdings Limited
Energy International Investments Holdings Limited	Essex Bio-Technology Limited
EVOC Intelligent Technology Company Limited	Flying Financial Service Holdings Limited
Fountain Set (Holdings) Limited	Future Bright Holdings Limited
G.A. Holdings Limited	Gemini Investments (Holdings) Limited
Good Fellow Resources Holdings Limited	Great China Holdings Limited
Green Energy Group Limited	Guocang Group Limited
Harmony Asset Limited	Honbridge Holdings Limited
Hua Yi Copper Holdings Limited	Hybrid Kinetic Group Limited
iOne Holdings Limited	Jiahua Stores Holdings Limited Jilin Qifeng Chemical Fiber Co., Ltd.
Jiwa Bio-Pharm Holdings Limited	Karce International Holdings Company Limited
King Fook Holdings Limited	Kingston Financial Group Limited
Lansen Pharmaceutical Holdings Limited	Larry Jewelry International Company Limited
Lung Cheong International Holdings Limited	Mastermind Capital Limited
Mexan Limited	Ming Kei Holdings Limited
Mitsumaru East Kit (Holdings) Limited	Mongolia Investment Group Limited
Nagacorp Limited	Nan Hai Corporation Limited
National Arts Holdings Ltd.	New Focus Auto Tech Holdings Limited
New Heritage Holdings Ltd.	Newtree Group Holdings Limited
PC Partner Group Limited	Phoenitron Holdings Limited
Pizu Group Holdings Limited	Powerwell Pacific Holdings Limited
Qianlong Technology International Holdings Limited	Quali-Smart Holdings Limited
Quam Limited	Regent Pacific Group Limited
Richfield Group Holdings Limited	Roma Group Limited
Rosan Resources Holdings Limited	Shanghai Tonva Petrochemical Co., Limited
Shanghai Tonva Petrochemical Co., Ltd.	Shanghai Zendai Property Limited
Shenzhen High-Tech Holdings Limited	SHK Hong Kong Industries Limited
Shougang Fushan Resources Group Limited	Sing Pao Media Enterprises Limited
Sino Harbour Property Group Limited	Sino Oil And Gas Holdings Limited
Sino Splendid Holdings Limited	Sinocop Resources (Holdings) Limited
Sino-i Technology Limited	Skyfame Realty (Holdings) Limited
Solartech International Holdings Limited	Soundwill Holdings Limited
South China Land Limited	South West Eco Development Limited
Sparkle Roll Group Limited	Sun East Technology (Holdings) Limited
Sun Innovation Holdings Limited	Symphony Holdings Ltd.
Thiz Technology Group Limited	Tiande Chemical Holdings Limited
Tianjin Teda Biomedical Engineering Company Limited	Travel Expert (Asia) Enterprises Limited
United Pacific Industries Limited	VODone Limited
Zebra Strategic Holdings Limited	
Jayden Resources Inc.	Changtian Plastic & Chemical Limited
China Essence Group Limited	China Oilfield Technology Services Group Limited

China Yuanbang Property Holdings Limited	Chinasing Investment Holdings Limited
Dukang Distillers Holdings Limited	Full Apex (Holdings) Limited
Joyas International Holdings Limited	Li Heng Chemical Fibre Technologies Limited
Longcheer Holdings Limited	Luxking Group Holdings Limited
Pan Hong Property Group Limited	People's Food Holdings Limited
Qingmei Group Holdings Limited	Sunray Holdings Limited
Synear Food Holdings Limited	New Focus Auto Tech Holdings Limited
Cathay International Holdings Limited	LED International Holdings Limited

INDEPENDENCE

It is our fundamental principle to perform assurance services with unimpaired professional judgment and objectivity, and to be seen to be doing so by a reasonable observer.

In relation to independence, we have detailed internal guidance setting out the policies and procedures designed to meet the principles and the requirements of the Code of Ethics for Professional Accountants (HK COE) issued by the Hong Kong Institute of Certified Public Accountants and the Code of Ethics for Professional Accountants (IFAC COE) issued by the International Ethics Standards Board for Accountants. This guidance is complemented by extensive advice on consultation and training programmes targeting the needs of the individual directors and staff.

These policies and procedures cover, inter alia, our relationships with audit clients, rotation of engagement directors, fees and the provision of non-audit services to audit clients.

A review of independence practices has been conducted via processes of internal review as part of a series of monitoring and review activities, including:

- An annual declaration undertaken by all directors and staff. All exceptions are reviewed and investigated by Quality Assurance Department.
- The audit quality assurance programme examines a selection of audit files on an annual basis to review, among other things, the independence compliance.
- Regular and ad hoc monitoring activities targeting specific aspects of audit independence.

In addition to the HK COE, all BDO Member Firms are required to comply with, and annually report as to their compliance with, the IFAC COE.

PROFESSIONAL DEVELOPMENT

We are committed to developing and maintaining the highest possible standards of technical competence through our own professional development programmes.

We have developed a curriculum for members of the audit stream, which includes:

- Completion of a relevant professional qualification
- Technical training and
- Professional skills development.

This curriculum reflects individual roles within the audit stream and responsibilities to be undertaken throughout their careers - encouraging above all application of professional judgement and professional scepticism skills.

At initial professional development (IPD) levels, for all trainee audit professionals, there is an intensive orientation programme covering our audit approach, tools, policies and procedures and its organisational structure. Additional IPD training is provided as a trainee progresses through their audit career. This includes access to online content as well as classroom and other forms of training. Training content is integrated alongside role requirements and content provided by professional qualifications to ensure that only the right people are performing the work at each level. This professional development is complemented by on the job coaching which provides a significant contribution to the professional development of trainees.

All qualified audit professionals, including managers and directors, are provided with continuing professional development (CPD) annual update interventions in auditing and accounting and reporting matters, some of which are mandatory for certain individuals and elective for others, depending on their business focus and own professional development needs. In addition to technical workshops, additional content is provided on a more just in time basis throughout the year. Additional training is also provided by sectors with support and guidance (including training). We require participation in appropriate CPD programmes and monitor the fulfilment of programme obligations.

Professional development opportunities for our people are identified by grade and highlighted in annually updated learning maps provided on our intranet. Our learning management systems can be used to select, book and track attendance in online or workshop based activities.

New lateral hire audit professionals are reviewed on an individual basis and receive a programme of training appropriate to their role and responsibilities - this may include additional training based on prior experience in order to ensure that audit quality is being maintained.

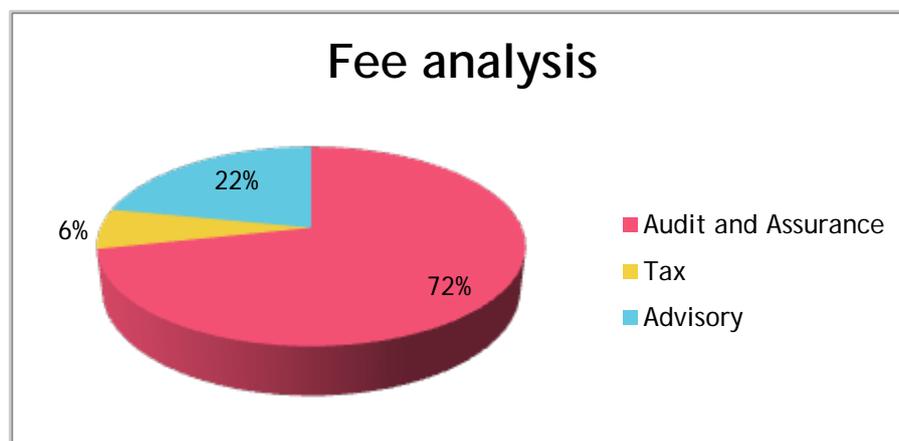
Our people are personally responsible for keeping up to date with the technical and professional skills which they need to successfully carry out the roles to which they are assigned. Regular technical guidance is also provided.

Performance development reviews reinforce our emphasis on lifelong learning and the continuous development of skills and attitudes including professional judgement and professional scepticism. As part of an individual's performance development review, initial and continuing professional development needs are discussed and courses, online support tools, workshops or other learning and development opportunities are identified using our published learning maps and career wheel. Specific on the job training opportunities may also be identified in order to further develop technical and professional skills; this may include international secondments as well as additional mentoring or coaching.

FINANCIAL INFORMATION

BDO Hong Kong has a staff contingent of 1,000, which includes some 250 plus qualified accountants, offering a wide range of professional services which can be broadly divided into three main businesses - Audit and Assurance, Tax and Advisory. Advisory comprises business, risk advisory and special advisory services.

Analysis of total turnover by professional services for the fiscal year ended 30 September 2013 is as follows:



DIRECTORS' REMUNERATION

Directors' remuneration is determined commensurate with their responsibilities, experience and performance, and is reviewed by the Remuneration Committee based on their achievement of the annual goal settings determined based on a series of competencies, which include technical competence, client services, business development, leadership, operational excellence, people management, risk management and professional ethics and communication.

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