

# BDO LIMITED TRANSPARENCY REPORT 2014

For the financial year ended 30 September 2014

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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 annual 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.

It was a fruitful year for BDO Hong Kong as we moved one step closer towards the integration with BDO China. In October 2014, we reached an agreement with BDO International and BDO China creating a three-party collaboration. This collaboration strengthens the BDO Network's international expertise by combining the best available assurance, business and advisory services locally in Hong Kong and China, enabling the provision of seamless services to clients operating in the two territories.

As our chairman Mr. Albert Au said, more and more businesses are demanding outstanding seamless professional service to help them grasp the vast market opportunities generated by the increasingly closer economic integration of China and Hong Kong. Closer cooperation with BDO China will further demonstrate our professionalism and commitment to quality and to serving the best interests of all our clients.

We are all excited by the opportunities that will become available to us from the closer cooperation with BDO China, as our clients look forward to receiving seamless services from an integrated professional team in Hong Kong and China.

Johnson Kong  
Chief Executive Officer  
BDO Limited  
13 December 2014

## LETTER FROM THE MANAGING DIRECTOR - ASSURANCE

Regulatory Regime for Listed Entity Auditors (“Audit Reform”) continued to be one of the hottest topics for audit profession in 2014 and there have been heated debates on a number of issues in the proposed Audit Reform.

As a firm, we support the overall principles to establish an independent auditor regulatory regime in Hong Kong to conform to international benchmarks and meet local circumstances. However, it is always the operational details, or more precisely the lack of which in the consultation which still caused widespread concern.

Being the firm’s Managing Director of assurance services and the President of the Hong Kong Institute of Certified Public Accountants (HKICPA) this year, I have been deeply involved in the consultation process. I am concerned about the following six areas: 1) circumstances that would result in the Financial Reporting Council (FRC) giving directions to the HKICPA while exercising oversight of the HKICPA’s activities; 2) circumstances where a systemic failure in quality control is considered to have occurred; 3) FRC vetting procedures and criteria for registration of non-Hong Kong auditors; 4) checks and balances to confirm separation of inspection and disciplinary processes and exercise of fairness in regulatory actions against auditors; 5) guidance on determination of regulatory action or sanctions; and 6) the composition of decision-making bodies.

I believe that within the overall structure of the independent regulatory system, there should be clear and effective separation of inspection or investigation and enforcement responsibilities and decision-making. There should be checks and balances to ensure that those who carry out and draw conclusions from inspections and investigations are separate from those who make decisions on enforcement and sanctions.

As a major accounting firm in Hong Kong, we will be significantly affected by changes in the regulatory environment, and I shall continue to represent the firm to provide our views on the proposed Audit Reform.

Clement Chan  
Managing Director - Assurance  
BDO Limited  
13 December 2014

## 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 Stitching BDO. Stitching 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.

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, policies and 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 2014 was in excess of US\$7.02 billion. As at 30 September 2014, the BDO network had member firms operating in 151 countries with 1,328 offices, and had over 60,000 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 around 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 over 30 years of professional accounting experience. He specialises in financial investigation, due diligence, litigation support, restructuring, receivership and insolvency related assignments. He sets strategy and policies for the firm, which are approved by the Executive Board, and executes the approved strategy and policies.

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

Johnson has recently been elected as a member of the Hong Kong Institute of Certified Public Accountants' Council.



**CLEMENT CHAN - Managing Director - Assurance**

Clement is the Immediate Past President of the Hong Kong Institute of Certified Public Accountants. He actively participates in standards setting and governance activities of the HKICPA. 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 executes and implements the firm's business plan and provides support and backup to the Chairman & CEO in discharging their duties.

**MARY JOYCE LEUNG - Chief Operating Officer**



Mary Joyce Leung has over 35 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 her 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 provides 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, their 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 and 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 also the Head of Business Development of the Assurance Department responsible for the marketing function. He has extensive experience in initial public offering exercises and 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.



**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.

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 is in the area of assurance services. Currently, she is engagement director for a number of major public companies with substantial investment 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 experience 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.



**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.



**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 experience 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.

Patrick has 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 corporate 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. She is also experienced in handling global practice clients in various industries, leading and coordinating global assignments.

## Risk Management Committee (RMC)

The 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 risk management policies and procedures and ensuring the compliance of directors and members of staff with those policies and procedures. These policies and procedures include the requirements of the Codes of Ethics for Professional Accountants issued by the HKICPA and the International Federation of Accountants (IFAC) 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

The RMC meets regularly 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

### New Client Acceptance Panel (NCAP)

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

The new 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;
- Consideration of 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 whether there is any reason 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
Fanny Li	Assurance Director

## INTERNAL QUALITY CONTROL SYSTEM

Our system of internal quality control is designed to provide reasonable assurance that we, our 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 our systems are compliant with all applicable standards, such as the Hong Kong Standard on Quality Control issued by the HKICPA and the International Standard on Quality Control of the International Auditing and Assurance Standards Board, published by the International Federation of Accountants.

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 that is inherently sound and clearly defines the responsibilities of the various levels of management.

It is a fundamental firm value that our 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 firm are committed to quality work, the public interest and professional judgement and our values of:

- Honesty and integrity
- Taking personal responsibility
- Mutual support
- 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 in detailed pages on our intranet and in the BDO Hong Kong Quality Assurance Manual. We expect our directors and staff 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 appropriate actions, including disciplinary action.

Our directors and staff will act in utmost integrity. This will require that we only associate 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 new client and engagement acceptance procedures play a pivotal role in our ability to deliver quality professional 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 of 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. Acceptance of new public interest entity audit clients requires pre-approval by the New Client Acceptance Panel.

## **d. Human resources**

Our people are the critical factor in our ability to provide exceptional client service and audit quality. To ensure that we have sufficient staff with the capability, 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 ensure 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 that we have an inclusive culture where everyone has an opportunity to develop and progress regardless of their differences. Inclusivity within our 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 appropriate to the roles for which they are being hired.

We continuously seek and adopt the most up-to-date 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 recruitment policies and procedures to ensure that they are appropriate and are operating effectively.

### *Performance development*

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

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

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

Appraisees benefit from continuous assessment through timely performance feedback from their supervisors and make appropriate improvements.

Reviews are performed on an assignment-by-assignment basis by trainees and audit seniors as well as at six-month intervals. The factors evaluated (which vary by staff 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 include online and traditional classroom-based delivery mechanisms. The learning outcomes for these training programmes are reviewed annually against the role requirements at each staff 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 the 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 a 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 remediated by additional training, delays in promotion, or 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 quality professional services. 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 quality professional services.

## **Engagement performance**

### *Common approach*

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, and 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 Hong Kong and International Standards on Auditing and these common processes are used by all 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, through a review of the audit documentation and discussion with the engagement team, must 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 Engagement Director 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 audit engagement team. He or she would ordinarily be an experienced assurance director and not be unduly influenced by the views of the 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 and Managing Director - 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.

## e. 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 review of audit working paper (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. This review process selects appropriate sample files 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:

- Objectives of the process
- Checklist of procedures
- 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, our 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, however, is not publicly available.

## PUBLIC INTEREST ENTITIES

Public interest entities as defined under paragraph 290.25 of Code of Ethics for Professional Accountants issued by the HKICPA 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 2014, we performed statutory audits of the following public interest entities:

*Companies listed in Hong Kong or elsewhere:*

1010 Printing Group Ltd.	Advanced Card Systems Holdings Ltd.
Agritrade Resources Ltd.	AMCO United Holding Ltd.
Anxian Yuan China Holdings Ltd.	Anxin-China Holdings Ltd.
Asia Energy Logistics Group Ltd.	Bestway International Holdings Ltd.
Blue Sky Power Holdings Ltd.	Branding China Group Ltd.
Capital Finance Holdings Ltd.	Century Legend (Holdings) Ltd.
Chanco International Group Ltd.	Changshouhua Food Co. Ltd.
China Assurance Finance Group Ltd.	China Binary Sale Technology Ltd.
China Bio-Med Regeneration Technology Ltd.	China Chengtong Development Group Ltd.
China Dynamics (Holdings) Ltd.	China Energy Development Holdings Ltd.
China Financial Leasing Group Ltd.	China Fortune Holdings Ltd.
China Investment Development Ltd.	China Kangda Food Co. Ltd.
China Nonferrous Metals Co. Ltd.	China Overseas Grand Oceans Group Ltd.
China Primary Resources Holdings Ltd.	China Resources and Transportation Group Ltd.
China Sandi Holdings Ltd.	China Water Affairs Group Ltd.
Cinderella Media Group Ltd.	Citychamp Watch & Jewellery Group Ltd.
Combest Holdings Ltd.	Continental Holdings Ltd.
Crosby Capital Ltd.	Culture Landmark Investment Ltd.
Dahe Media Co. Ltd. - H Shares	Datronix Holdings Ltd.
Differ Group Holding Co. Ltd.	Digital Domain Holdings Ltd.
Eagle Legend Asia Ltd.	Eco-Tek Holdings Ltd.
Energy International Investments Holdings Ltd.	Essex Bio-Technology Ltd.
EVOC Intelligent Technology Co. Ltd. - H Shares	Flying Financial Service Holdings Ltd.
Fountain Set (Holdings) Ltd.	Future Bright Holdings Ltd.
G.A. Holdings Ltd.	Gemini Investments (Holdings) Ltd.
Good Fellow Resources Holdings Ltd.	Great China Holdings Ltd.
Green Energy Group Ltd.	Guocang Group Ltd.
Harmony Asset Ltd.	Honbridge Holdings Ltd.
Hybrid Kinetic Group Ltd.	iOne Holdings Ltd.
Jia Meng Holdings Ltd.	Jiahua Stores Holdings Ltd.
Jilin Qifeng Chemical Fiber Co., Ltd. - H Shares	King Fook Holdings Ltd.
Kingston Financial Group Ltd.	Lansen Pharmaceutical Holdings Ltd.
Larry Jewelry International Co. Ltd.	Lung Cheong International Holdings Ltd.
LVGEM (China) Real Estate Investment Co. Ltd.	Mastermind Capital Ltd.
Mexan Ltd.	NagaCorp Ltd.
Nan Hai Corporation Ltd.	Nanjing Sinolife United Co. Ltd. - H Shares
National Arts Entertainment and Culture Group Ltd.	Newtree Group Holdings Ltd.
PC Partner Group Ltd.	Phoenitron Holdings Ltd.
Pizu Group Holdings Ltd.	Powerwell Pacific Holdings Ltd.
Quali-Smart Holdings Ltd.	Quam Ltd.
Realord Group Holdings Ltd.	Regent Pacific Group Ltd.
Richfield Group Holdings Ltd.	Roma Group Ltd.
Rosan Resources Holdings Ltd.	Runway Global Holdings Co. Ltd.
Shanghai Tonva Petrochemical Co., Ltd. - H Shares	Shanghai Zendai Property Ltd.
SHK Hong Kong Industries Ltd.	Shougang Fushan Resources Group Ltd.
Sino Harbour Property Group Ltd.	Sino Oil and Gas Holdings Ltd.
Sino Splendid Holdings Ltd.	Sinogreen Energy International Group Ltd.
Sino-i Technology Ltd.	Skyfame Realty (Holdings) Ltd.
Solartech International Holdings Ltd.	Soundwill Holdings Ltd.
South China Land Ltd.	South West Eco Development Ltd.
Sparkle Roll Group Ltd.	Sun East Technology (Holdings) Ltd.
Symphony Holdings Ltd.	Thiz Technology Group Ltd.
Tiande Chemical Holdings Ltd.	Tianjin TEDA Biomedical Engineering Co. Ltd. - H Shares

Topsearch International (Holdings) Ltd.	Travel Expert (Asia) Enterprises Ltd.
U-Home Group Holdings Ltd.	United Pacific Industries Ltd.
V1 Group Ltd.	Yueshou Environmental Holdings Ltd.
Zebra Strategic Holdings Ltd.	99 Wuxian Limited
Full Apex (Holdings) Limited	Cathay International Holdings Limited
Joyas International Holdings Limited	Changtian Plastic & Chemical Limited
LED International Holdings Limited	China Essence Group Limited
Li Heng Chemical Fibre Technologies Limited	China Kangda Food Company Limited
Longcheer Holdings Limited	China Print Power Group Limited
Luxking Group Holdings Limited	China Yuanbang Property Holdings Limited
Pan Hong Property Group Limited	Chinasing Investment Holdings Limited
Qingmei Group Holdings Limited	Dukang Distillers Holdings Limited
Dukang Distillers Holdings Limited	

## INDEPENDENCE

It is our fundamental principle to perform assurance services with unimpaired professional judgement 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 requirements of the Code of Ethics for Professional Accountants (HK COE) issued by the HKICPA and the Code of Ethics for Professional Accountants (IFAC COE) issued by the IFAC. 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 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 our staff, which includes:

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

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

At initial professional development levels, for all trainee audit professionals, there is an intensive orientation programme covering our audit approach, tools, policies and procedures and our organisational structure. Additional professional development training is provided as a trainee progresses through his or her 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 updates in auditing, 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.

Newly employed professionals with prior work experience 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 their prior work experience in order to ensure that audit quality is maintained.

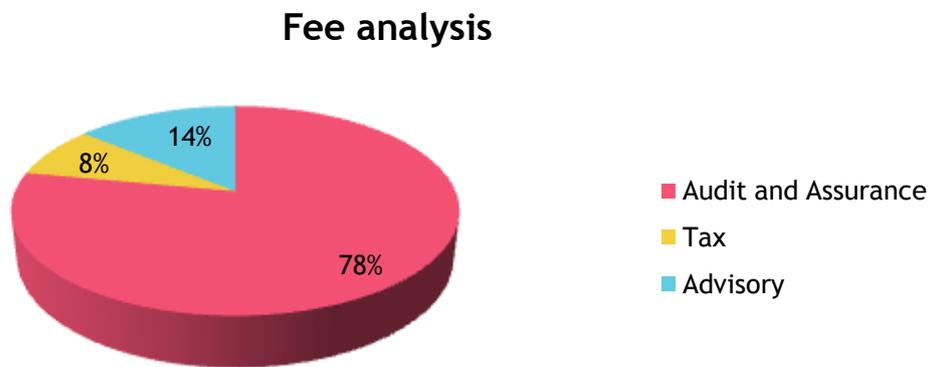
Our people are personally responsible for keeping up-to-date with technical and professional skills that they need to successfully carry out the roles to which they are assigned. Regular technical guidance is also provided.

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 training courses, online support tools, workshops or other learning and development opportunities are identified using our published learning maps and career development wheel. Specific on-the-job training opportunities are identified in order to further develop technical and professional skills, and 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 over 220 qualified accountants, offering a wide range of professional services that 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 2014 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 annually determined goals 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.

## **BDO Limited**

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