

# BDO LIMITED TRANSPARENCY REPORT 2017

For the financial year ended 30 September 2017

# Contents

Letter from the Managing Director - Assurance	1
Legal structure and ownership	2
Network	3
Governance structure	5
Internal quality control system	11
Management Committee Statement on effectiveness of functioning	19
Monitoring of quality control	19
Independence	19
Professional development	21
Rotation of key audit directors and staff	22
Financial information	23
Directors' remuneration	23
Appendix I: EU/EEA Member Firms	24
Appendix II: Public Interest Audit Clients	27

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 MANAGING DIRECTOR - ASSURANCE

We present the accompanying Transparency Report for our financial year ended 30 September 2017 in accordance with European Union Audit Regulation (EU No. 537/2014) Article 13.

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 service and therefore ensure the continual development of our staff and enhancement of our range of audit tools. BDO's methodologies, robust quality assurance framework, continuing professional development, tools and guidance are developed with our clients in mind and promptly reflect external developments in world-best practice.

As a firm, we are always committed to audit quality and professionalism across different lines of service and this has made us one of the most reputable accounting firms in Hong Kong over the past 37 years. It is our core strategy and we will continue to deliver exceptional client service through high quality of work.

By its very nature of providing stakeholders in public interest entities with the assurance they are otherwise unable to obtain, the audit profession continually faces significant pressure due to the ever-increasing expectations. The pressure will be even higher due to the impending audit regulatory reform in Hong Kong. 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, licensing, inspection, investigation, enforcement, standard setting and continuing professional education.

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

Clement Chan  
Managing Director - Assurance  
BDO Limited  
31 January 2018

## LEGAL STRUCTURE AND OWNERSHIP

### BDO Limited

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 **embracing new ideas and technologies**. 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 jurisdictions. 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 & Outsourcing
- Private Client Services
- Risk Advisory Services
- Specialist Advisory Services
- Tax Services

## NETWORK

### BDO International

BDO Limited is a Member Firm of BDO International Limited.

#### Description of the network:

The BDO network is an international network of independent public accounting, tax and advisory firms which are members of BDO International Limited and perform professional services under the name and style of BDO (hereafter: 'BDO Member Firms'). BDO is the brand name for the BDO network and all BDO Member Firms.

#### Legal and structural arrangements in the network:

Each BDO Member Firm is a member of BDO International Limited, a UK company limited by guarantee, as either a voting member (one per country) or a non-voting member. BDO International Limited is the governing entity of the BDO network and sets the membership obligations of the BDO Member Firms in the Regulations.

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

The Council comprises one representative from each voting member and comprises the members of BDO International Limited in general meeting. The Council approves the network's central budget, 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, comprises a representative of the BDO network's seven largest member firms, whose appointment, each for a three year term, is approved by the Council. The Global Board sets priorities for the BDO network and oversees the work of the Global Leadership Team. The Global Board meets at least four times a year.

The Global Leadership Team is tasked with coordinating the activities of the BDO network. It is headed by the CEO and comprises a COO (currently also acting as Global Head of Advisory), the Global Heads of Audit & Accounting, Tax, HR & Development, Business Development & Marketing, IT, the CEO EMEA, the CEO Americas, the CEO Asia Pacific and the International Secretary.

The Global Leadership Team is supported by the Global Office at Brussels Worldwide Services BVBA. Brussels Worldwide Services BVBA, a Belgian limited liability company, provides services to assist in the coordination of the BDO network.

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 BDO Member Firms 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 BDO Member Firms.

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 162 countries for the year ended 30 September 2017 was in excess of € 7.4 Million. Partner and staff numbers at 30 September 2017 were some 73,000.

Appendix I sets out the name, operating country of statutory auditors within the EU/EEA, and the combined turnover achieved by those firms is set out in Page 23.

**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 - are 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.

## GOVERNANCE STRUCTURE

### Management Committee

The Management Committee was established in January 2015 and is responsible for the execution of our strategy as laid down by the Board, and for the day-to-day operations. The Management Committee is assisted by Functional and Service Line Heads in executing our strategy and administering the day-to-day operations. The members of the Management Committee are with a renewable term of 3 years and they are:



#### **Clement Chan** **Managing Director - Assurance**

**Clement Chan** is the Managing Director - Assurance and also an International Liaison Partner of BDO Limited.

Clement was the President of the Hong Kong Institute of Certified Public Accountants in 2014. Over the last five years, he has actively participated in standards setting and governance activities both domestically and internationally. He is also the immediate past Chair of the Asian-Oceanian Standard-Setters Group, a regional national standard setters organization.

Clement has actively served in a number of public interest bodies:

- Past Chairman and Board Director, The Australian Chamber of Commerce in Hong Kong
- Member of the Process Review Panel of the Securities and Future Commission
- Honorary Advisor to Financial Reporting Council
- Member, Higher Rights Assessment Board
- Member of the standing Companies Law Reform work group
- Member, Audit Committee of Western Kowloon Cultural District Authority
- Council Member and Chairman of the Publicity and Community Relations Committee of the Consumer Council
- Member, Solicitors Disciplinary Tribunal Panel, Judiciary Administration, HKSAR government
- Member, Independent Police Complaints Council, HKSAR government
- Director, UNSW Hong Kong Foundation Board
- External Advisors, Department of Accountancy & Law, Hong Kong Baptist University
- Chairman, Departmental Advisory Committee for Department of Accountancy, City University of Hong Kong

Clement is a Fellow of both the Hong Kong Institute of Certified Public Accountants (Practising) and the Institute of Chartered Accountants in England and Wales.



**Johnson Kong**  
**Managing Director - Non Assurance**

**Johnson Kong** is the Managing Director - Non-Assurance and also an International Liaison Partner of BDO Limited.

He has over 30 years of professional accounting experience. He specialises in financial investigation, due diligence, forensic and litigation support, restructuring, receivership and insolvency related assignments.

In addition to being the Managing Director of the Firm's Non-Assurance Services, 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. At BDO International global level, he is a member of its International Risk Management Committee, Risk Advisory Services International Steering Committee and International Forensic Leadership Group.

Johnson holds a number of professional and public appointments. He is an elected Vice President and Council Member of the Hong Kong Institute of Certified Public Accountants (HKICPA). In addition, he is the Chairman of Qualifications Oversight Board and Professional Conduct Committee, Deputy Chairman of Small and Medium Practitioners Committee, a member of the Registration and Practising Committee, Restructuring and Insolvency Faculty Executive Committee, Ethics Committee and 7<sup>th</sup> Long Range Planning Steering Group. He is also a Past Chairman of the Restructuring & Insolvency Faculty of HKICPA, Past President of the Hong Kong Institute of Accredited Accounting Technicians and an Ex-Executive Board Member of INSOL.

**Other current professional /public appointments**

- Member, Appeal Panel (Housing), Transport and Housing Bureau, The HKSAR
- Member, Securities and Futures Appeals Tribunal, Financial Services and the Treasury Bureau, The HKSAR
- Member, Advisory Board on Accountancy, Lingnan University
- Member, Hong Kong Chapter Committee, Institute of Chartered Accountants in England and Wales
- Member, Small and Medium Practices Committee, International Federation of Accountants

Johnson is a fellow of the Hong Kong Institute of Certified Public Accountants (Practising), the Institute of Chartered Accountants in England and Wales and the Society of Chinese Accountants and Auditors. He is also a member of the Association of Certified Fraud Examiners, a Registered Insolvency Practitioner under the Hong Kong Official Receiver's Panel and holder of the Specialist Designation in Insolvency awarded by HKICPA.



**Andrew Lam**  
**Director & Head of Business Development and**  
**Marketing - Assurance services**

**Andrew Lam** is a director of the firm, and also the Head of Business Development and Marketing - Assurance services.

**Andrew** 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 and issue financial products in Hong Kong, Singapore and other overseas financial centres. Andrew's other areas of expertise include financial due diligence, corporate mergers, acquisitions, reorganisation and other capital market transactions. He is also active in providing statutory assurance work to companies listed locally and abroad.

Andrew's clients are mainly based in Hong Kong and Mainland China, some with substantial overseas investments, and covering a wide range of industries and businesses.

Andrew was trained and qualified as a Chartered Accountant in the United Kingdom. He has accumulated approximately 30 years of public practice experience in major international accounting firms.

Andrew is a Fellow of the Hong Kong Institute of Certified Public Accountants (Practising) and the Institute of Chartered Accountants in England and Wales.



**Hong Ng**  
**Director & Head of Operations and Finance**

Hong Ng is the Director & Head of Operations and Finance of BDO Limited. He has over 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.

Whilst being responsible for the risk management functions of the Firm, Hong continues to serve as the engagement director on a portfolio of audit clients comprising publicly listed and private companies spanning over a wide spectrum of industries.

Hong is active in the social communities. He is the Honorary Auditor of the Hong Kong Society of Paediatric Dentistry and Honorary Auditor and auditor of a number of charitable and not-for-profit organisations in Hong Kong.

Hong is a Fellow of the Hong Kong Institute of Certified Public Accountants (Practising). He had served on the Professional Risk Management Committee of the Institute and had been a member of the Institute's Liability Reform Task Force for a number of years.

Hong is also a member of the Financial Reporting Review Panel of the Financial Reporting Council.

### 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 IESBA of 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)	Director and Head of Risk Management
Clement Chan	Managing Director - Assurance
Johnson Kong	Managing Director - Non Assurance
Hong Ng	Director and Head of Operations & Finance
Simon Riley	Head of Professional Services
Cecilia Yam	Director and Head of Quality Assurance
Lesley Yeung	Director and Head of Assurance

### 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 prospective client's business including its geographical spread and the industry it operates in;
- Evaluation of information concerning the prospective 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 prospective client, including prior year financial statements.

The NCAP members are as follows:

Name	Title
Stephen Chan (Chair)	Director and Head of Risk Management
Clement Chan	Managing Director - Assurance
Johnson Kong	Managing Director - Non Assurance
Simon Riley	Head of Professional Services
Cecilia Yam	Director and Head of Quality Assurance
Lesley Yeung	Director and Head of Assurance
Ringo Chiu	Director and Assurance Group Head
Peter Chow	Director and Assurance Group Head
Fanny Li	Director and Assurance Group Head

## 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, that 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, including the Hong Kong Standard on Quality Control 1 issued by the HKICPA and the International Standard on Quality Control 1 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 firm and the Management Committee are committed to quality work, the public interest and sound 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 Managing Directors, the directors, and other senior personnel. The Management Committee 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 communicate 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 & Risk Management 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 firm 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.

## e. 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 professional 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 greater than normal 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.

## 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 review of audit working papers (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 the 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

## MANAGEMENT COMMITTEE STATEMENT ON EFFECTIVENESS OF FUNCTIONING

These policies, procedures and monitoring activities have provided our Management Committee 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 Management Committee is satisfied that our system of internal control allows us to identify crucial areas where improvements may be necessary. The Management Committee has inter alia considered the results of the reviews performed internally and externally by BDO International and the HKICPA in reaching this opinion.

## MONITORING OF QUALITY CONTROL

The last completed quality assurance reviews (known as practice review) performed by the HKICPA and BDO International were in August 2016 and August 2015 respectively. Both reviews were with no follow-up action being required. The review results, however, are not publicly available.

## 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 IESBA of the IFAC. This guidance is complemented by extensive advice on consultation and training programmes targeting the needs of the individual directors and staff. The relevant ethics and independence rules are posted on our intranet, which is accessible by all directors and professionals.

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 the 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.

We have a designated Independence Champion, the Head of Quality Assurance, who monitors compliance with the applicable independence policies and procedures, provides consultations regarding independence matters, and oversees independence training and maintenance of a restricted entity database.

We also maintain a database of all our firm's restricted entities, including listed companies and other public interest entities. This is available on our intranet and its objective is to prevent the performance of prohibited non-assurance services or investment in these entities. The database is continuously updated.

Prior to accepting any new client or assurance engagement, our engagement teams must perform specific procedures to identify potential conflicts of interest and threats to our independence. Procedures include a custom-made web-based tool to facilitate international conflict of interest and independence checks throughout the BDO network.

There is also an independence declaration per audit engagement signed by all directors and staff members that have been involved in the performance of the audit engagement.

## 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 regulatory 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.

### **ROTATION OF KEY AUDIT DIRECTORS AND STAFF**

The firm's policies with respect to rotation of key audit directors and staff (ie, those other than the engagement director and EQCR, who are specifically covered by statute/regulation) is principles-based, depending on the facts and circumstances of the engagement. Typically, such 'key audit directors and staff' include audit directors and senior managers/ managers performing a significant portion of the work, as well as specialist directors and senior managers/managers (eg, tax, valuation). The rotation period for these professionals is seven years.

## FINANCIAL INFORMATION

BDO Hong Kong has a staff contingent of approximately 1,000, which includes over 200 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 services & outsourcing, private client services, risk advisory services and special advisory services.

Analysis of total turnover by professional services for the financial year ended 30 September 2017 is as follows:

Statutory audit	Revenues in 2016	Revenues in 2017
PIEs and their subsidiaries	47%	45%
Other entities	53%	55%

The combined turnover from statutory audits of the BDO EU/EEA audit firms for the period 2016/17 was €557,930,819.

## DIRECTORS' REMUNERATION

Directors' remuneration is determined having regard to 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.

## APPENDIX 1

### EU/EEA Member Firms

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS IN THE TERRITORY
AUSTRIA	Austria	BDO Agitas GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
	Austria	BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
	Austria	BDO Audit Styria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft
	Austria	BDO Salzburg GmbH Wirtschaftsprüfungsgesellschaft
	Austria	BDO Oberösterreich GmbH Wirtschaftsprüfungs - und Steuerberatungsgesellschaft
BELGIUM	Belgium	BDO Bedrijfsrevisoren Burg. Ven. CVBA
BULGARIA	Bulgaria	BDO Bulgaria Ltd.
CROATIA	Croatia	BDO Croatia D.O.O.
CYPRUS	Cyprus	BDO Limited
CZECH REPUBLIC	Czech Republic	BDO Audit s.r.o
	Czech Republic	BDO CA s.r.o.
	Czech Republic	BDO CB s.r.o.
	Czech Republic	BDO Plzen s.r.o.
DENMARK	Denmark /Greenland / Feroe Islands	BDO Statsautoriseret Revisionsaktieselskab
	Denmark	BDO Holding IV, Statsautoriseret Revisionsaktieselskab
ESTONIA	Estonia	BDO Eesti AS
FINLAND	Finland	BDO Oy
	Finland	BDO Audiator Oy
	Finland	BDO Yhtiötarkastus Oy
FRANCE	France	BDO France Léger & Associés SARL
	France	BDO IDF SARL
	France	BDO PACA SAS
	France	BDO Atlantique SA
	France	BDO Rhone - Alpes SAS
	France	BDO AXE SASU
	France	BDO 2AS SAS
	France	BDO Les HERBIERS SA
	France	BDO FONTENAY LE COMTE SAS
	France	BDO SAINT GILLES CROIX DE VIE SARL
	France	BDO NANTES SAS
	France	Vincent Rusé Conseil SAS
	France	BDO Les Ulis

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS IN THE TERRITORY
GERMANY	Germany	BDO AG Wirtschaftsprüfungsgesellschaft
	Germany	BDO Arbicon GmbH & Co. KG Wirtschaftsprüfungsgesellschaft
GIBRALTAR	Gibraltar	BDO Limited
GREECE	Greece	BDO CERTIFIED PUBLIC ACCOUNTANTS S.A.
HUNGARY	Hungary	BDO Hungary Audit Ltd
IRELAND	Ireland	BDO
ITALY	Italy / San Marino	BDO Italia S.p.A.
	San Marino	BDO Srl (San Marino)
LATVIA	Latvia	SIA BDO Audit
LIECHTENSTEIN	Liechtenstein	BDO (Liechtenstein) AG
LITHUANIA	Lithuania	BDO Auditas ir Apskaita, UAB
LUXEMBOURG	Luxembourg	BDO Audit
MALTA	Malta	BDO Malta CPAs
NETHERLANDS	Netherlands	BDO Audit & Assurance B.V.
NORWAY	Norway/Iceland	BDO AS
POLAND	Poland	BDO Sp. z o.o.
PORTUGAL	Portugal /Cape Verde	BDO & Associados, SROC, Lda
ROMANIA	Romania/Moldova	BDO Audit SRL
	Romania	BDO Auditors & Accountants SRL
	Romania	BDO Auditors and Business Advisors SRL
	Slovak Republic	BDO Audit, spol. s r.o.
SLOVENIA	Slovenia	BDO Revizija d.o.o.
SPAIN	Spain	BDO Auditores, S.L.P.
	Spain	BDO Quota, S.L.P.

COUNTRY	TERRITORY	NAME OF THE AUDIT FIRMS IN THE TERRITORY
SWEDEN	Sweden	BDO AB
	Sweden	BDO Syd AB
	Sweden	BDO Syd KB
	Sweden	BDO Göteborg KB
	Sweden	BDO Göteborg AB
	Sweden	BDO Sweden AB
	Sweden	BDO Mälardalen AB
	Sweden	BDO Stockholm AB
	Sweden	BDO Mälardalen Intressenter AB
	Sweden	BDO Syd Intressenter AB
	Sweden	BDO Göteborg Intressenter AB
	Sweden	BDO Norr AB
	Sweden	BDO Norr Intressenter AB
UNITED KINGDOM	United Kingdom of Great Britain and Northern Ireland/ Isle of Man/ Guernsey	BDO LLP
	Northern Ireland	BDO Northern Ireland
	Guernsey	BDO Limited

## APPENDIX 2

### Public interest audit clients

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. 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 falling within the above definition.

In the financial year ended 30 September 2017, we performed statutory audits of the following public interest entities:

#### Companies listed in Hong Kong :

AID Partners Capital Holdings Limited	China Nonferrous Metals Company Limited
Anacle Systems Limited	China Nuclear Energy Technology Corporation Limited
Ascent International Holdings Limited	China Oceanwide International Financial Limited
Asia Energy Logistics Group Limited	China Overseas Grand Oceans Group Limited
BCI Group Holdings Limited	China Primary Resources Holdings Limited
Branding China Group Limited	China Regenerative Medicine International Limited
CEFC Hong Kong Financial Investment Company Limited	China Sandi Holdings Limited
Century Legend (Holdings) Limited	China Shenghai Food Holdings Company Limited
Changshouhua Food Company Limited	China Shun Ke Long Holdings Limited
China Assurance Finance Group Limited	China Tangshang Holdings Limited
China Binary Sale Technology Limited	Ching Lee Holdings Limited
China Chengtong Development Group Limited	Chuan Holdings Limited
China Dynamics (Holdings) Limited	Citychamp Watch & Jewellery Group Limited
China Energy Development Holdings Limited	Combest Holdings Limited
China Environmental Technology Bioenergy Holdings Limited	Continental Holdings Limited
China Fortune Holdings Limited	Cool Link (Holdings) Limited
China Gem Holdings Limited	Creative China Holdings Limited
China Healthwise Holdings Limited	CROSSTEC Group Limited
China HKBridge Holdings Limited	Datronix Holdings Limited
China Investment Development Limited	DeTai Bew Energy Group Limited
China Kangda Food Company Limited	Differ Group Holding Company Limited

Digital Domain Holdings Limited	KK Culture Holdings Limited
Dongguang Chemical Limited	Kong Sun Holdings Limited
Dongwu Cement International Limited	KPa-BM Holdings Limited
E Lighting Group Holdings Limited	Lansen Pharmaceutical Holdings Limited
Eagle Legend Asia Limited	Link Holdings Limited
Eco-Tek Holdings Limited	Linocraft Holdings Limited
EGL Holdings Company Limited	Lion Rock Group Limited
Energy International Investments Holdings Limited	Loco Hong Kong Holdings Limited
Essex Bio-Technology Limited	Mexan Limited
EVOC Intelligent Technology Company Limited	Nagacorp Limited
Expert Systems Holdings Limited	Nan Hai Corporation Limited
Fineland Real Estate Services Group Limited	NVC Lighting Holding Limited
Fire Rock Holdings Limited	OOH Holdings Limited
Flying Financial Service Holdings Limited	Orient Securities International Holdings Limited
Fortune Sun (China) Holdings Limited	Oriental University City Holdings (H.K.) Limited
Fountain Set (Holdings) Limited	Pak Wing Group (Holdings) Limited
Furniweb Holdings Limited	Pantronics Holdings Limited
Future Bright Holdings Limited	PC Partner Group Limited
Future Data Group Limited	PFC Device Inc.
FY Financial (Shenzhen) Co., Ltd.	Pinestone Capital Limited
G&M Holdings Limited	Pizu Group Holdings Limited
Gameone Holdings Limited	Poly Property Group Co., Limited
Gemini Investments (Holdings) Limited	Putian Communication Group Limited
GME Group Holdings Limited	Quali-Smart Holdings Limited
Good Resources Holdings Limited	Regent Pacific Group Limited
Green Energy Group Limited	Roma Group Limited
Grand Ming Group Holdings Limited	Runway Global Holdings Company Limited
Grand Ocean Advanced Resources Company Limited	Sandmartin International Holdings Limited
Hing Ming Holdings Limited	SCUD Group Limited
Honbridge Holdings Limited	Shanghai Dasheng Agriculture Finance Technology Co. Ltd.
Honggang Lighting Holdings Company Limited	Shanghai Dazhong Public Utilities (Group) Co., Ltd.
Hsin Chong Group Holdings Limited	Sheng Yuan Holdings Limited
Hua Lien International (Holdings) Company Limited	Sheung Yue Group Holdings Limited
IBI Group Holdings Limited	SHK Hong Kong Industries Limited
Jiahua Stores Holdings Limited	Shougang Fushan Resources Group Limited
Kasen International Holdings Limited	Shuanghua Holdings Limited
King Fook Holdings Limited	Sincere Watch (Hong Kong) Limited
King Force Security Holdings Limited	Sino Harbour Holdings Group Limited
King's Flair International (Holdings) Limited	Sino Oil And Gas Holdings Limited
Kingston Financial Group Limited	Sino-i Technology Limited

Skyfame Realty (Holdings) Limited  
Solartech International Holdings Limited  
Soundwill Holdings Limited  
South China Assets Holdings Limited  
Starlight Culture Entertainment Group Limited  
Sparkle Roll Group Limited  
Superactive Group Company Limited  
Symphony Holdings Ltd.  
Synergy Group Holdings International Limited  
Tech Pro Technology Development Limited  
Thiz Technology Group Limited

Tiande Chemical Holdings Limited  
Tianjin Teda Biomedical Engineering Company Limited  
Travel Expert (Asia) Enterprises Limited  
U-Home Group Holdings Limited  
V1 Group Limited  
Vestate Group Holdings Limited  
Winfull Group Holdings Limited  
Winson Holdings Hong Kong Limited  
Worldgate Global Logistics Ltd  
Zhi Sheng Group Holdings Limited  
ZMFY Automobile Glass Services Limited

### Companies listed elsewhere:

99 Wuxian Limited  
Cathay International Holdings Limited  
Changtian Plastic & Chemical Limited  
China Yuanbang Property Holdings Limited  
Chinasing Investment Holdings Limited  
Dukang Distillers Holdings Limited

Full Apex (Holdings) Limited  
LED International Holdings Limited  
Longcheer Holdings Limited  
Luxking Group Holdings Limited  
Pan Hong Property Group Limited  
Worldsec Limited

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