KPMG

Alumninews

June 2007

Keeping you connected with KPMG

Reaching out

KPMG supports the next generation through SoCO and Project Hope initiatives

AUDIT ▪ TAX ▪ ADVISORY

Message from the **Chairmen**

The past year has been one of transition and growth for KPMG in China and Hong Kong SAR. We have grown in numbers and extended our reach to new areas of China. We have also completed a smooth transition in our leadership, following the retirement of our co-chairman Dominic Ho in March 2007.

We hope the past year has been just as fulfilling and exciting for you as it has been for KPMG in China and Hong Kong SAR. We'd like to hear back from you about how you are getting on; and if you have moved to a new position, please don't forget to update your contact details. You can do this by filling out the slip that accompanies this magazine.

Over the coming months we will be moving forward with an active Alumni Programme, that will include social events and networking resources. We already have more than 1,600 people in our alumni database and we hope to extend and deepen that network in line with our growing presence across China and Hong Kong. We will also be upgrading the alumni page on our Web site: **www.kpmg.com.hk**

If you have any feedback or suggestions on our alumni magazine or how the alumni network can work for you, we would be delighted to hear from you. If you are still in touch with former alumni who have not received this magazine, please encourage them to contact us via the alumni page of our Web site.

We hope that this magazine provides you with some useful information about KPMG.

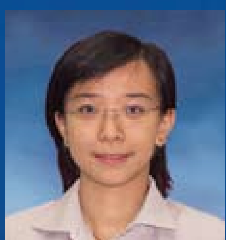
Best wishes,

John and Carlson

On the cover: John Harrison and Carlson Tong visit *Our Life in West Kowloon*, a community exhibition organised by Society for Community Organisation (SoCO). See page 7 for more about our relationship with SoCO.

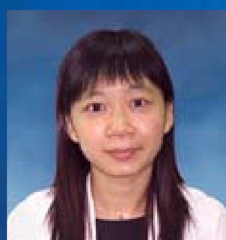
Chairmen's Awards **2007**

The following members of KPMG in China and Hong Kong SAR were recognised for their outstanding involvement in charity and community work over the past year.



Yoyo Lin in Guangzhou, for her involvement with Friends of Nature (FON), a grassroots non-profit organisation promoting environmental protection and sustainable development in China.

Sam Wong in Hong Kong, for his work with children's charities through KPMG as well as his local church.



Erica Liang in Guangzhou, for her dedication to voluntary work with the elderly and handicapped groups over more than ten years.

A stylish send-off for Dominic Ho

When China began opening up its doors to the world in 1978, it didn't take long for Dominic Ho to realise the incredible opportunities that were presented to KPMG. His commitment to China in the years that followed culminated in his serving as co-chairman of the firm from 2003 until his retirement earlier this year.

Dominic Ho, the architect of KPMG's growth in China, retired as co-chairman of the firm on 31 March 2007. Having joined the Houston office of Peat Marwick Mitchell in 1975, Dominic remembers the moment in 1978 when he realised China's potential as a market and the need it would have for professional accounting services.

"The realisation propelled me to write a letter to Stan Klion, the Secretary General of Peat Marwick International, asking him what plans the firm had for entering the China market," Dominic recalls. "I didn't receive a reply until two years later when I met Stan at a lunch. He pulled out the letter I had written to him two years prior and then asked me if I wanted to participate in providing advisory services to China's oil and gas industry."

Dominic seized the opportunity and just a few years later was asked to relocate permanently to Beijing. In 1985 he became a partner and continued to grow the mainland China business.

In 1989, Dominic was considering returning to the US, but Marvin Cheung convinced him to move to the Hong Kong office instead. "At the time, Hong Kong had very little in the way of mainland Chinese clients or knowledge of China," Dominic reflects. "Marvin envisioned me further developing the relationships I had already established in China, in addition to building up new ones. We worked diligently to develop our China-related business in both Hong Kong and the mainland."

Today the Hong Kong and mainland China practices operate under a single management structure and the firm includes a growing number of the largest Chinese enterprises among its clients. This success, and the growth of the firm to more than 5,000 people, can be attributed, more than to anyone else, to the efforts of Dominic.

Over the course of February and March, Dominic bid farewell to his KPMG colleagues at a series of dinners in Beijing, Shanghai and Hong Kong. The final farewell came at a black-tie dinner at the Island Shangri-La in Hong Kong on 17 March.

Dominic admits that he has yet to hatch many plans for his retirement, but for now he expects to divide his time between China and his second home in Texas. He admits to having many hobbies, including learning the saxophone, but does not expect these will keep him fully occupied. So, it would seem likely that this is far from the last chapter in the remarkable life of Dominic Ho.

Dominic in Beijing in the early 1980s.

Dominic gives a farewell speech to colleagues in Guangzhou.

Ricci Chan in Hong Kong, for volunteering his weekends to provide disadvantaged children with tutorial classes.

Anson Bailey in Hong Kong, for his efforts in raising money through a charity rugby tournament.

Karen Ng in Hong Kong, for her voluntary efforts with disabled and elderly groups in Kwai Chung and Guangzhou.

Andrew Thomson in Shanghai, for supporting the Students in Free Enterprise (SIFE) project since 2003.

Working for a **great firm**

Starting out with a salary of about HKD 100 a week 33 years ago, Carlson Tong's career in accountancy began in a small firm in Cardiff, UK. He joined KPMG in 1979 after he qualified, and a chance meeting with Alan Deacon, then the HR partner of KPMG in Hong Kong, brought him to our shores in 1985. This April, 22 years later, Carlson assumed the co-chairmanship for KPMG in China and Hong Kong SAR.

"I am honoured to be entrusted with such a great responsibility and I will give it my all," says Carlson. "I have known John Harrison for over 20 years and have a lot of respect for his leadership, drive and commitment to succeed. I look forward to working together with him to lead the firm."

Cheerful, positive, and unafraid of challenges, Carlson is looking forward to his new role. "I work for a great firm, one that I am very proud of. Every day presents new challenges but it is overcoming them that makes life exciting. Life would be very boring indeed if every day was the same."

"I believe that in whatever you do, you must do your best and always lead by example. 'Do unto others as you would have them do unto you' is my motto in life," says Carlson. Personable and easy to get along with, Carlson always tries to make people feel comfortable when they meet him — "I also ensure that I treat others with respect. To me it is important to act with integrity and always share credit where it is due."

Leading a top firm

Carlson is full of praise for what Dominic and John have achieved over the past four years. "I think they have done a superb job in leading the firm and it will be a tough act to follow. I remember when they took over in April 2003, Hong Kong was in the depths of economic recession and was hit by SARS but how things have changed since then."

"I believe that in whatever you do, you must do your best and always lead by example."

During John and Dominic's four-year term to 31 March 2007, the firm increased its fees by over 80 percent, admitted a total of 75 new partners and opened three new offices. In the second five-year plan recently approved by the partners, the firm aims to increase fees by an average compound growth rate of some 22 percent per annum which translates into an increase of 150 percent over the next five years.

"To achieve this target," says Carlson, "we will require even more partners and a significant increase in our workforce. I would like to see us exceeding our plan and to be able to provide many more career opportunities for our people."

Leading a great firm will take a lot of effort, and Carlson will slowly be relinquishing some of his other external professional commitments to focus on KPMG. This year, he stood down as the vice president of the HKICPA, therefore giving up the presidency in 2008, though he still remains on the council. Carlson is also the Chairman of the listing committee of the Main and GEM Boards for the Hong Kong Stock Exchange, amongst other professional appointments.

Carlson is also active within the community, and is a Board Member of the Hong Kong Sports Institute and the Deputy Chairman of the Council of the Hong Kong Chinese Orchestra. He can be spotted at many of the firm's community events.

"I encourage and support our partners to be more involved in our communities," says Carlson, adding that he has found his involvement in the community to be very meaningful and rewarding.

From strength to strength

In his 27 years at KPMG, Carlson cites three people as having the greatest influence during the different stages of his professional career.

"Peter Westwood, who was the Senior Partner of KPMG UK (then Peat Marwick Mitchell) South Wales Practice," says Carlson. "Peter is a very clever man and hugely respected. He gave me opportunities and played a major role in shaping my professional development during my years with the UK firm. While he could be very demanding, he was a fair man and I learned a great deal from him.

Marvin Cheung, who was the senior partner before Dominic Ho and John Harrison, also had considerable influence on Carlson's career.

"I worked closely with Marvin after I returned from UK in 1985. Those who know Marvin will know how challenging it was to work for him because he would always be a step ahead of you. Every decision Marvin made was after full consideration of the facts and thorough analysis. I also learnt from him when to say no, even when you are in the line of fire!

And finally — Dominic Ho.

"Over the past few years the person I learnt most from, and who has been the strongest influence on my values and professional judgment must be Dominic," says Carlson.

"I will miss his wise counsel, but I am sure he will remain a very close friend of the firm. I will always admire him for his continuous drive for excellence in everything he does and his compassion for those around him. "

From these leaders, Carlson seems to have picked up the desire and passion for excellence.

"I would like KPMG to continue to be recognised as a top firm in terms of reputation, quality and integrity as well as being the market leader in serving top companies in China and Hong Kong," he says. "We must also be the Employer of Choice for all our people and graduates in China and Hong Kong."

"Leading a great firm is hard work," says Carlson.

He adds with a smile, "but I have never been one to turn down a challenge."

"I would like KPMG to continue to be recognised as a top firm in terms of reputation, quality and integrity as well as being the market leader in serving top companies in China and Hong Kong."

Our network

News from KPMG in China and Hong Kong SAR

Fuzhou, home of our tenth office in China.

KPMG grows across China

On 15 May 2007, KPMG opened its tenth office in China, in the coastal city of Fuzhou. The city has grown into one of the main commercial and manufacturing centres in southeast China, and has also benefited from cross-strait investment with Taiwan. Ronald Sze will act as senior partner for the office.

The opening ceremony was attended by senior members of KPMG and also by Frederick Ma, Hong Kong's Secretary for Financial Services and the Treasury.

Fuzhou follows on the heels of two other new offices, which opened during the second half of 2006. Our Chengdu office opened in September, with a lavish ceremony attended by over 90 officials and representatives of major domestic and multinational companies based in the city. The office is headed up by David Ko.

The following month, our ninth office opened in Qingdao, the gateway to Shandong province. John Harrison and Dominic Ho met the city's mayor, Xia Geng, who presented them with a replica yacht, the symbol of the city and its role in the upcoming 2008 Olympics. Cheryl Fung has transferred from Shanghai to serve as senior partner in this office.

Far from simply being representative offices, all three are expected to grow quickly, to accommodate the opportunities in these key regions of the country.

A happy moment at Fuzhou office's grand opening.

Training facilities continue to expand

In addition to opening new offices, KPMG continues to develop the skills of its people through the development of state-of-the-art facilities. In August last year, the firm opened a major new training facility in Shanghai. The facility covers 1,000 square metres in the Cloud Nine Building, which is also home to the Regent Hotel. The Hong Kong office will also be opening an extensive new training and conference centre in Taikoo Plaza in June this year.

With plans to recruit 1,700 graduates across China and Hong Kong, the firm will continue to place the highest importance on training and personal development.

The new training centre in Hong Kong.

Committed to our communities

Green initiatives

KPMG member firms have established an International Climate Change Working Group, to assess our collective response to the challenges of climate change. The chairman of this working group is Lord Michael Hastings, KPMG International's Director for Corporate Citizenship. KPMG in China and Hong Kong SAR will play its part in setting targets for environmental performance and supporting sustainability initiatives at the local level.

Operation Smile

Operation Smile is an international charity providing cleft lip and palate operations for disadvantaged children in China. KPMG in China has been fundraising for Operation Smile since 2004 and has sponsored several volunteers from our Shanghai office to accompany international medical personnel providing these operations.

Outstanding Partnership Project Award 傑出伙伴合作計劃獎 2006/07

5 consecutive years 商界展關懷 caringcompany 2002-07 Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

An outstanding partnership: KPMG and SoCO

Hong Kong is a world of tremendous extremes. Wealth and poverty exist side by side, yet are often hidden from one another. One of our core values at KPMG is our commitment to our communities. As part of that commitment, we have pledged to help those among us who have fewer opportunities in life.

Society for Community Organisation (SoCO) is a non-profit and non-government community organisation, which provides basic services and support for elderly, new immigrants and children from deprived families. Its modest community centre (pictured, *below*) is located at Sham Shui Po in West Kowloon, one of Hong Kong's poorest neighbourhoods.

Since 2003, KPMG in Hong Kong has built up a relationship with the children from SoCO, providing educational, financial and resources support as well as developing the children's potential for their all-round development. More than 500 people from KPMG in Hong Kong contribute their personal time and resources each year to SoCO activities.

As a result of this commitment, KPMG in Hong Kong and SoCO recently received the Outstanding Partnership Project Award from the Hong Kong Council of Social Services (HKCSS). KPMG was one of five companies to be given the award out of over 1,200 caring companies in Hong Kong.

SoCO has held a number of its fundraising and media activities over the years. In March 2007, SoCO launched an interactive exhibition and accompanying book entitled *Our Life in West Kowloon*, so that visitors could see for themselves the conditions in which so many people live. Visitors were able to walk through the one-room apartments and cramped cubicles where dozens of families live. KPMG was the sponsor for the exhibition, the related publication and a series of promotional events.

We warmly invite you to learn more about SoCO by visiting **www.soco.org.hk** and to lend your own support to their worthy causes.

A few examples of the recent Private Equity deals that are grabbing news headlines.

Private Equity:

A new **focus** for KPMG

With trillions of dollars in funds and many high-profile corporations and brands being swallowed up, Private Equity companies are exerting an increasingly strong influence over capital markets and the wider business environment. In recognition of this, Private Equity is now established as one of KPMG's global industry lines of business (LOBs), with a dedicated team of partners leading our efforts.

"Making Private Equity an LOB has allowed us to elevate certain companies into global targets," explains Honson To, partner in charge of Private Equity for KPMG in China and Hong Kong SAR. "Any portfolio company joining a Private Equity group will automatically fall under this new LOB, which in turn will allow us to approach those companies with a more linked-up approach that cuts across audit, tax and advisory services.

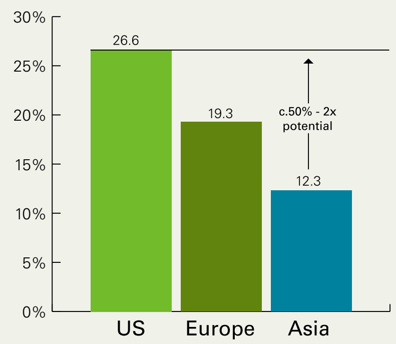
Private Equity in the region

Hong Kong is emerging as a particularly important regional centre for Private Equity houses such as Blackstone, KKR, CVC and Carlyle Group. Capital under management in Asia Pacific grew by 30 percent in 2006, to USD 158 billion. Almost USD 67 billion of new Private Equity money was invested in the region over the course of the year.

The potential for further growth is equally impressive. Private Equity still only accounts for 12.3 percent of total M&A deal value in the region, compared with 26.6 percent in the United States and 19.3 percent in Europe.

"The key factor that makes Asia Pacific so compelling for private equity fund managers is the economic growth of the region," says To. "The upward pressure on the pricing of deals in Europe and the US has also made the region more interesting, with surprisingly few people mentioning low labour costs as a factor."

Private Equity deal value as a percent of M&A activity (2006)



Source: Bain – Thomson Financial; EIU

Spreading understanding

The concept of Private Equity is often misunderstood in the wider community, even in such a finance-savvy place as Hong Kong. This is another area where KPMG can help.

"The media in the West has been giving PE a hard time over the last year," admits Paul Brough, partner in charge of Financial Advisory Services for KPMG in China and Hong Kong SAR. "The media in Asia Pacific have been less vociferous, but PE houses still have to deal with the perception that they are predators or asset strippers. What gets lost in the debate is the simple fact that PE houses can help to improve governance. They can often incentivise management more effectively than companies run under traditional public ownership."

For more information on our Private Equity LOB, visit our Web site or contact Honson To at **honson.to@kpmg.com.cn**

Bringing hope to students in need

KPMG people witness the teaching conditions for students at Renhua Middle School, as part of the Project Hope scheme.

Sometimes the best thing we can give to those less fortunate than ourselves is hope – the hope for a better, brighter future.

The Guangdong region may be growing in prosperity, but there are many challenges for young people hoping to pursue an education. KPMG has not only recognised that education is a fundamental problem for many people, but also that it is an area where the firm can make a difference and directly help improve peoples' lives.

The firm's activities in southern China have been led by Lilly Li, a partner in the Guangzhou office of KPMG in China, but also involved dozens of KPMG staff. "We have been trying to build up awareness among our staff about community activities for some time," Lilly explains. " The feedback they have given us is that they want to support projects where they can see the benefits and really participate. Their feedback is now guiding the projects that we choose to get involved in. In particular, it has led to our renewed support for education initiatives."

In 2006 KPMG reached out to a group of young people who are struggling with the cost of continuing their studies, through the Project Hope programme. The firm has also supported a school for deaf and blind children and holds fund-raising Community Service Days several times each year.

Project Hope is a public welfare undertaking established and organised by the China Youth Development Foundation (CYDF). Since its inception in 1989 it has helped provide scholarships to over 100,000 students around China and helped to fund teacher training, library facilities and the construction of thousands of new primary schools in poor areas. The CYDF has also led a high profile campaign to support the Chinese government's efforts in implementing the Nine-Year Compulsory Education Law.

In late 2006, a group of volunteers from KPMG visited high school students studying at Renhua Middle School in Shaoguan, Guangdong province. The students revealed their desire for learning, but also spoke of the challenges they faced in balancing study with the other demands of their personal lives. Some of them were struggling to combine their studies with the need to work, to help support their families.

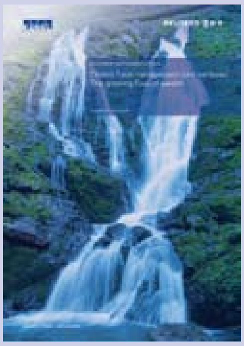
The volunteers heard how one student had left the school as he could not afford the tuition and had to care for a sick parent. They also had an opportunity to visit the home of a female student who had been helped by the programme, where they were warmly welcomed by her family.

With school fees costing as little as RMB 2,000 per person per year, KPMG's donations have already directly changed the lives of many young people. Without this financial support, many would have found it impossible to continue their studies. KPMG has pledged to provide direct financial and personal support to more students over the coming year, and to pursue other initiatives to improve young peoples' chances of receiving an education.

Publications update

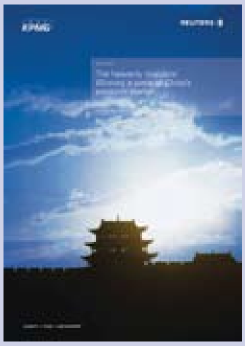
Below is a selection of our recent thought leadership publications, many of which are focused on China and Asia Pacific markets. For more details visit our Web site or contact Mike Hurle, publications manager, on +852 2826 7292.

Financial Services



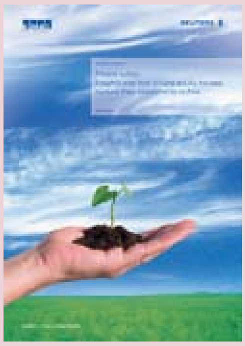
China's fund management joint ventures: The growing flow of wealth (April 2007)

Retail banking in China: New frontiers (March 2007)



The heavenly mandate: Winning a piece of China's pensions market (September 2006)

Private Equity

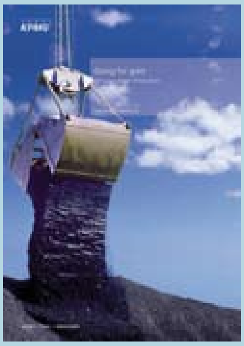


Private tuition: Insights into how private equity houses nurture their investments in Asia Pacific (October 2006)

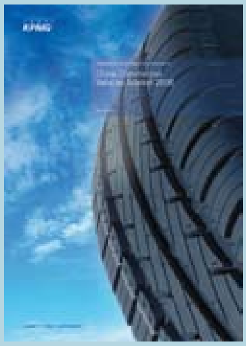
Industrial Markets

Alternative energies in China: Which way will the wind blow? (May 2007)

Automotive dealerships in China: Accelerating performance (April 2007)



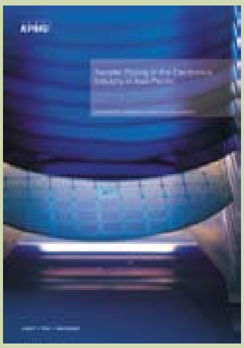
Going for gold: China as a global mining player (December 2006)



China commercial vehicles market 2006 (October 2006)

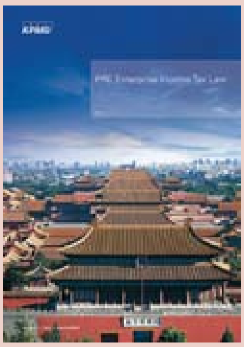
Information, Communications & Entertainment

The impact of digitalization – a generation apart (April 2007)

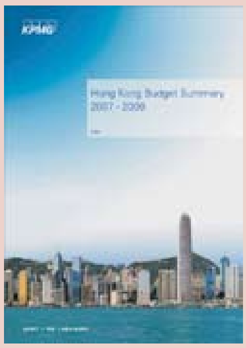


Transfer pricing in the electronics industry in Asia Pacific (February 2007)

Tax



PRC Enterprise Income Tax Law (April 2007)

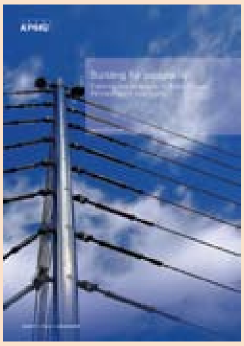


Hong Kong Budget Summary 2007-2008 (February 2007)

www.kpmg.com.hk

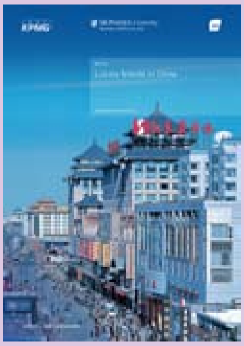
Property & Infrastructure

A guide to airports in Asia Pacific (February 2007)



Building for prosperity: The prospects for Public Private Partnerships in Asia Pacific (January 2007)

Consumer Markets



Luxury brands in China (November 2006)

Consumer markets companies investing in emerging markets (October 2006)

Advisory

Fraud and misconduct survey in Hong Kong: 2006 findings (January 2007)

Asian outsourcing: The next wave (November 2006)

Events highlights

Financial Services:

KPMG has continued its strong relationship with Reuters in early 2007, with two new thought leadership publications on retail banking and fund management. *Fund management joint ventures: The growing flow of funds* was launched in March to coincide with the inaugural *Funds Forum Asia*, which was held in Hong Kong and sponsored by KPMG.

Industrial Markets:

KPMG's Mining Industry Group held a series of events in Beijing in February, to address China's resource challenges and position the firm with key players in the sector. The events coincided with the publication of a new report entitled *Going for Gold: China as a Global Mining Player*. They included dinner for presidents and CEOs of mining firms active in China and a briefing for over 50 executives from leading companies such as BHP Billiton, Anglo American, Anglo Gold and Phelps Dodge. In addition to presentations from partners Melvin Guen, Khoonming Ho and Cliff Chau on industry developments, Alison Kitchen from KPMG Australia introduced the KPMG's Global Mining Reporting Survey.

Consumer Markets:

KPMG is sponsoring the CIES World Food Business Summit in Shanghai on 20-22 June. KPMG will be launching a new thought leadership publication to coincide with this conference and will be hosting its own executive events.

Tax:

KPMG has continued its series of tax roadshows covering nine cities around China during 2007. The roadshows look at the key reforms to PRC income tax reform and key changes in tax preferential policies, including the types of tax incentives available under the future system.

For more information on upcoming events being hosted or sponsored by KPMG in China and Hong Kong SAR, visit our web site or contact Anita Chau, events manager, on **+852 2826 7115**

Feature interview

Raising the bar

By Mike Hurle

Jacky Tsang, a former Tax Manager with KPMG in Hong Kong, shares some recollections of his time with the firm and explains what is driving him in his new role with BOC International.

KPMG professionals are often known for their ambition, drive and persistence. These qualities certainly served Jacky Tsang well, when he left the firm in 2003 to join BOC International, the investment banking arm of Bank of China Group. The company is headquartered in Hong Kong but also has offices in mainland China, London and Singapore, and will be opening a new office in New York later this year.

"The past four years have been exciting as we have transformed

from a traditional brokerage into a modern investment banking operation with functions covering corporate finance, proprietary trading and asset management," Tsang explains. "Brokerage can seem a relatively simple business, compared to the complexities we now face in managing risks, establishing controls and complying with regulations. We also need to bring in a wider mix of people and create more specialised teams."

Tsang's appetite for success and personal improvement is reflected in his approach to life and in his commitment to his work. It is this appetite for improvement which has propelled him from his initial position as a tax consultant to the role of finance director.

"After I joined BOC International, I quickly started to take on additional roles," Tsang explains. "The first new area was regulatory capital monitoring, then later I took on responsibilities in Treasury, which involved maintaining the liquidity of the group and managing the demands for funds from different parts within it. These roles required me to quickly become familiar with new SFC regulations, something my training at KPMG helped me to do."

Handling these demands also required a particular mix of drive and personal skills. "Keeping your colleagues on side and balancing their demands is mostly about having a positive attitude and really wanting to get things done," Tsang reflects. "KPMG's training and approach made it easier for me to pick up and interpret regulations. But the soft skills training has also proved useful, given that I have to negotiate with a range of people, from our sales team through to our compliance head and external parties such as bankers. You need to have an outgoing character and always be pushing for more."

Tsang has positive recollections of KPMG, where he worked for seven years. He started in the International Executive Services department, before moving to Corporate Tax. He remains grateful to Paul Brough for his support in this move. "Paul was my counselling partner when I

"KPMG's training and approach made it easier for me to pick up and interpret regulations. But the soft skills training has also proved useful"

first joined the firm and helped me to pass the CPA exam," Tsang recalls. "He also helped me to transfer to Corporate Tax; in hindsight that change of track proved to be key to my future career development."

Tsang continues to benefit from his relationships with KPMG alumni. "The firm has a good standing in the banking sector, due to the quality of its people and its training," he says. "I know many people from KPMG who have gone on to achieve great success in the industry."

If one thing is sure, it is that Tsang will continue to raise the bar of performance as BOC International expands into new markets in the years to come.

Tax harmonisation

in the PRC

In March 2007, China took an important step towards harmonising its tax regime for foreign and domestic companies.

China has long relied on taxation as a tool to attract and incentivise foreign investment, particularly in its manufacturing industries. If imitation is the sincerest form of flattery, then China's tax regime has undoubtedly been a success; its tax models have been emulated by countries around the world from Southeast Asia to the emerging economies of Eastern Europe.

Now the Chinese authorities are changing tack. The preferential tax rates and tax holidays that have been offered to foreign-invested enterprises (FIEs) are being stripped away in favour of a more uniform income tax regime. The authorities are levelling the playing field between foreign and domestic companies and opting for more targeted and sophisticated tax incentives in their place.

The new Enterprise Income Tax Law (EIT Law) was promulgated by the National People's Congress on 16 March 2007 and will be effective from 1 January 2008. According to the new Law, EIT applies to all enterprises, including FIEs, foreign enterprises and domestic enterprises.

The EIT Law contains tax incentives which are targeted at enterprises engaged in certain designated industries rather than on the basis of their geographical location. It offers tax incentives ranging from reduction in taxable income, bonus and accelerated deductions, to tax exemption or reduction for designated industries such as energy and resource saving, environmental protection, and hi-tech development.

As certain tax incentives applicable to FIEs prior to the introduction of the EIT Law have been revoked, transitional grandfathering relief has been introduced for qualifying FIEs. Transitional measures also apply to certain areas in the PRC which previously offered a lower tax rate. For example, under the transitional measures, the current EIT rate of 15 percent in special economic zones will be gradually phased up to the 25 percent EIT rate over a five-year period.

"The new EIT Law reflects the level of economic development that China has now achieved," says Chris Ho, tax

partner for KPMG in China and Hong Kong SAR. "The authorities want to provide more support to growing domestic enterprises, which had previously faced a Corporate Income Tax rate as high as 33 percent. The government also wants to focus on developing more sophisticated and energy-efficient industries that will support the next stage of growth and wealth creation in the country."

The EIT Law should be considered as more of a broad framework for the application of the new tax regime. However, successful implementation of the general provisions in the law would require detailed implementation rules, which would further define and supplement the general EIT Law provisions. The issuance of these detailed implementation rules falls under the authority of the State Council, an executive body empowered (specifically under the EIT Law in the present case) to promulgate tax regulations and provisions.

KPMG in China and Hong Kong SAR has published a guide to the new EIT Law and also issues regular alerts on PRC taxation. For more details visit **www.kpmg.com.cn**.

The key changes

- Income tax liability will be governed by the residency status of taxpayers. The law introduces the concepts of "resident enterprise" and "non-resident enterprise" to distinguish between taxpayers.

- The existing system of granting five-year tax holidays (consisting of a two-year exemption followed by a three-year 50 percent reduction of the applicable tax rate) to foreign-invested production enterprises will be revoked. Companies which are already in, or are about to embark on their tax holiday will be offered a transition period.

- The new law sets out a general tax rate of 25 percent. A special reduced rate of 20 percent will be available for enterprises deemed to be 'small scale' with low profits, and a third, further-reduced rate will be offered to 'encouraged' high-tech enterprises. Detailed criteria for companies to secure the reduced rates have yet to be released.

- Companies that are currently subject to a reduced income tax rate under the existing law (for example those companies in Special Economic Zones) will be eligible for a five-year transition period, during which the tax rate will gradually increase to the unified rate of 25 percent.

- A number of new tax incentives will be available in certain circumstances. For example, companies involved in qualifying energy and water saving projects will be able to apply for tax relief. In addition, income from environmental protection projects and technology transfers that meet the prescribed criteria will receive a tax exemption or reduction.

- Tax relief currently offered to export-oriented enterprises is likely to be repealed, as the lower tax rate currently offered to such enterprises is considered to be in violation of WTO principles.

- The standard withholding tax rate for dividends, interest, royalties, capital gains or other income derived by a non-resident enterprise from sources in China will be fixed at 20 percent. However, the new law does provide the possibility for exemptions or reductions by the State Council.

Behind every top company, there's a strong finance team

Companies can succeed when CFOs take the lead in proactively managing information flows and costs.

In many organisations, the finance function is seen as a necessary encumbrance – a function that while vital to the operation of the enterprise, is largely a cost centre and usually takes a back seat in corporate decision making.

Finance is the home of transactions, routine processes, financial controls, monthly reports and compliance activities. But the finance function and the CFO can also be strategic partners to an organisation, on the same level as customer operations, product development and IT.

A recent report by KPMG International found that top-performing organisations also have top performing CFOs that have efficient finance functions enabling them to spend less time on cost control and more time on strategic decision making.

The report found that 80 percent of CFOs in average-performing companies focus predominately on cost control and struggle to effectively reduce operating costs, with only 8 percent of respondents actually reaching or exceeding their cost reduction targets. However, 64 percent of CFOs from high-performing companies spend more time on strategic support.

Specifically, the focus of top finance teams is on managing risk and guiding investors and the organisation on business performance, rather than analysing financial data and controlling costs.

The report, entitled *Being the Best: Insights from leading finance functions*, is based on interviews with CFOs or heads of finance in almost 400 global organisations. Research was carried out by the Economist Intelligence Unit (EIU) on behalf of KPMG International.

Colin Waugh, Business Performance Services leader for KPMG in Hong Kong, says that a key challenge is moving finance out of a reporting and control capacity to one that manages risk, delivers strategic value as well as shareholder and business insights and value.

"Most CFOs have clear aspirations of becoming a strategic partner to the CEO but are not there yet. Many are caught in a functionary role, managing compliance projects and day-to-day operations instead of thinking strategically', Waugh comments. "Improving the ability of finance to forecast performance and manage the integration of information are the two top priorities identified by CFOs in our survey. Once these are accomplished then finance can be a far more effective strategic partner."

CFOs are also finding efficiencies through centralising and standardising processes which also enable a single view of finance across their company. The report found 30 to 50 percent of companies are now handling their treasury management and financial reporting, transaction processing within a shared service centre.

Compliance obligations were cited by 62 percent of the respondents as one of the main restrictions on finance's ability to focus on providing strategic insight.

Waugh states, "For finance to deliver value to the business requires equal attention to gaining and maintaining the trust of its internal and external stakeholders, running an efficient operation and providing insight that will drive economic and shareholder value."

For more information about *Being the Best: Insights from leading finance functions*, contact Colin Waugh at **colin.waugh@kpmg.com.hk**

Strength in restructuring

Jacky Muk, Head of Restructuring Services in China, explains the changes taking place in his team.

Jacky Muk

KPMG's Corporate Recovery team recently changed its name to Restructuring Services. The new name broadcasts a clear message that the team's work is about much more than liquidations and receiverships.

"We are increasingly interested in working with stakeholders to improve underperforming businesses, and to identify exit strategies," says Jacky Muk. "We are promoting our Cash and Working Capital Management, and Operational and Financial Restructuring services. Many of these are services that can be provided to our existing clients. We can provide practical assistance to any client, or customer of a client that is in financial distress, seems to have weak cash and working capital management controls, or wants to cut costs."

Recent engagements include a Philippines' telecom company, a bank in Hong Kong, a Hong Kong retail company and a textiles company on the mainland. "In each case, we were hands-on alongside management implementing cash control measures, improving working capital and reducing operational costs, while simultaneously either putting together a financial restructuring plan or finding an exit strategy for the stakeholders," says Muk.

The team is currently in discussions on two large-scale energy sector opportunities in different countries around Asia.

Jannie Wong heads up the Restructuring Services team on the mainland and is working with a number of private equity and hedge fund clients to help with financial monitoring and operational restructuring. The Guangzhou team has delivered a series of presentations on its service offerings in China to government officials and business leaders in southern China.

The firm is also beginning to see a rise of "Exit Strategy" advisory work. Not all investments go smoothly, even in the most mature economies. The team believes the new Enterprise Bankruptcy Law, which comes into force in June, could also generate further opportunities.

Four KPMG clients win disclosure awards

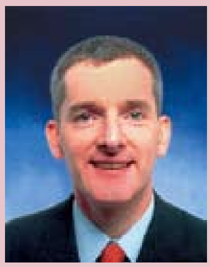
Four KPMG audit clients were winners at the 2006 HKICPA Best Corporate Governance Disclosure Awards.

Winners included HSBC Holdings plc (HS Index Platinum Award), Standard Chartered PLC (Non-HS Index Diamond Award), the Hong Kong Airport Authority (Not-for-profit Diamond Award) and Hong Kong's Securities and Future Commission (Not-for-profit Platinum Award).

The competition, which has completed its seventh year, aims to promote greater awareness of corporate governance, encourage improvements in the standard of corporate governance disclosures, as well as recognise those companies and organisations whose annual reports set the standard, in terms of corporate governance disclosures and underlying governance structures and practices.

William Crowe and Stephen Lee participated as members of the Compliance and Quality Review Panels, although for obvious reasons, they did not participate in the review of the financial statements of KPMG clients.

Stephen Lee



William Crowe

The IPO pipeline keeps flowing for KPMG

China CITIC Bank Corporation Limited made its USD 5.4 billion listing on 27 April 2007, marking the largest Initial Public Offering in the world this year. The bank is only the second Chinese company to seek a simultaneous listing on the Hong Kong and Shanghai bourses following Industrial and Commercial Bank of China (ICBC) last year.

KPMG in China and Hong Kong SAR was involved in this listing as the reporting accountants, beginning its preparations for the IPO back in 2005. More than 200 KPMG professionals worked on this listing at one time, harnessing resources from our Beijing, Shanghai, Qingdao, Hangzhou, Guangzhou, Shenzhen and Hong Kong offices.

Stephen Yiu

The engagement was led by Stephen Yiu (pictured, *left*) as the lead partner, together with Ellen Jin and Elise Wong as the head office partners. The core team was also supported by other fellow partners for the branch audit, for the IFRS and PRC concurring review as well as for technical support.

"IPO work is a great example of how KPMG professionals work together to provide value to our clients," comments Stephen Yiu. "CITIC has been a client with KPMG since the late 1990s and we hope to continue a strong client relationship with them."

Our involvement in this high-profile listing reinforces the leading position KPMG has in the financial services across China and Hong Kong. But it is only one of many dozens of IPOs that the firm is currently working on.

Over the past year the firm has advised on numerous successful listings on NASDAQ, the Singapore Stock Exchange and the Main Board of the Hong Kong Stock Exchange.

Keep in touch

We welcome your comments on our Alumninews and we will be in touch with more plans for our KPMG alumni programme over the coming months. If your details need updating, please fill out the form provided with this magazine. If your former colleagues are also interested in joining, please encourage them to get in touch with us.

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113,000 talented people

The KPMG 2006 International Annual Review showcases some of the achievements of the KPMG network of member firms, and also looks at the issues this network of 113,000 individuals faces, the way we are responding, as well as how the world and our marketplace are changing.

The KPMG 2006 International Annual Review looks back at the progress made in 2006, and ahead to some of the key issues we think will shape the future. Performance highlights include:

- Combined revenue of member firms was USD 16.9 billion. This represents a growth of 9.6 percent in local currency terms.
- The fastest growing business was Advisory with 12.9 percent local growth to USD5.28 billion. The average growth in BRIC (Brazil, Russia, India and China) countries was 42 percent. Our decision to invest early and heavily in new markets in Asia, Europe and Latin America is reaping strong returns.
- The largest percentage growth was in KPMG's Asia Pacific region, which recorded revenue of USD 2.10 billion, an increase of 13.7 percent.
- The KPMG member firms headcount increased by 9,000 people last year to 113,000 worldwide. 595 new partners were appointed. There are now more than 6,800 KPMG partners in 148 countries. 16,000 graduates and 13,000 experienced professionals were hired in 2006 globally.

A colleague remembered: Louise Fung

Many alumni will remember Louise Fung, who passed away early this year.

Louise Fung joined Peat, Marwick, Mitchell & Co. on 1 February 1963 in Hong Kong. Over the years, Louise worked her way up to become senior manager of the Accounting Department, which fell under the Corporate Services Division (CSD) of the firm. In 1997, CSD became K Corporate Services Limited and was later, sold to a third party, where Louise continued to work until 2005.

Louise Fung (left) with her former KPMG colleagues Sammy But, Gek Chiu, and Kam Wah Yip.

Louise's unwavering personal commitment to excellence and strong work ethic over her more than 30 years with the firm left a profound impact on her former colleagues.

"Louise was a very warm, sincere and caring person," recalls her former colleague Gek Chiu. "She had a very encouraging, positive and practical attitude at work and was much respected by colleagues and clients alike. When Louise was the senior manager of the Accounting Department, I worked as her deputy manager. She instilled a great sense of belonging and team spirit among her staff. We were like a family."

"Louise was unique, unforgettable and showed us resolve and so much strength of character in her years with the firm." *— Denys Connolly, former senior partner of KPMG Hong Kong*

Denys Connolly, who served as the firm's Senior Partner between 1978 and 1985, also remembers her fondly. "Louise Fung was the perfect colleague, dependable and always willing. She propped up those senior to her and cared for and taught her subordinates all with a wry smile and unshakeable calm and thoughtfulness."

"I sought Louise as the Partner in charge of the Secretarial and Accounting function," continues Connolly, "but she firmly said 'No'. It was then that her other and primary interest appeared – her family. She was extremely and justifiably proud of her children. It showed great courage and a sense of responsibility to her family commitments for her to turn down a partnership in those days," he adds.

Faced with changes in the workplace, Louise adapted quickly, leading change for the betterment of the firm. "She embraced the move to new technology, helping me computerise the Accounting Department," says retired partner Mick Bond. "She very quickly became much more computer literate than me!"

Left to right: Gek Chiu, Louise Fung and Ian Bruce (former senior partner of KPMG Hong Kong and current chairman of KCS Limited).

Louise had been with the firm for over 25 years by that time, but far from being fazed by new technologies, she recognised the importance of moving forward.

Many other members of KPMG, past and present will remember Louise, who passed away on 25 January. On 8 February, family, friends and former colleagues paid a tribute to her at a funeral mass at Saint Joseph's Church in Hong Kong.

In the words of Denys Connolly, "Louise was unique, unforgettable and showed us resolve and so much strength of character in her years with the firm." We will always remember her fondly and her contributions to the firm.

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