

BDO CONNECT



MANAGING PARTNER'S MESSAGE



Frankie Chia
Managing Partner
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The past few months have been busy ones for us.

We have had a China delegation from several BDO offices pay us a visit, and there have been much sharing and identified opportunities for collaboration.

On the international front we have also had new member firms in Brazil and Tajikistan.

This quarter's issue promises to be an interesting and enjoyable read. We have topical discussions on corporate social responsibility (CSR) branding, the Productivity and Innovation Credit, family businesses and even commentary on S-Chips which had been in the media spotlight recently.

We have shared fundamental information on what one needs to know about shareholders' disputes as well as provided insight into how China cash balances at banks are audited.

A couple of our articles have also appeared in the media.

They have been reproduced within this publication for your reading should you have missed them when they appeared in The Business Times in May.

I do hope you find reading this publication useful.

For a fuller discussion of issues, please feel free to contact the authors or your regular contact at BDO.

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SINGAPORE NEWS

BDO recognised by CPA Australia

BDO Singapore has recently attained the status as a recognised employer partner under CPA Australia.

The status is awarded to organisations that have a strong commitment towards learning and development, supporting the professional development of their staff by identifying, providing, monitoring and re-assessing staff development needs.



As a Recognised Knowledge Partner, it means that we have demonstrated a strong dedication to supporting the learning and development of our accounting and finance professionals – undertaking their initial and continuing professional development throughout their entire career.

The new status will be valid through 12 April 2014.

Singapore - A Global Research and Development Hub through Tax Incentives

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With globalisation, businesses in Singapore are shifting low-technology manufacturing activity to lower cost countries such as China and India. The Singapore government is moving the country's economic activities up the value chain by encouraging businesses to invest in research and development and innovation.

The government's announcement to spend S\$16.1 billion over year 2011 to 2015 on research, innovation and enterprise (a 20% increase in comparison with the last 5 years) reflects its move from manufacturing-based economy to the creation of new technology, inventing new products and services or devising new processes.

Research and development involves creative work or studies undertaken on a systematic basis, usually carried out in a scientific, investigative and experimental manner to increase knowledge.

The knowledge acquired or the result of the study undertaken is then applied in devising new technologies and applications.

Research and development results in the creation of new products, devices or materials which are technically superior and produced using more efficient processes so that businesses stay competitive.

An example is Slumberland, a premier international bed manufacturer that attributes its success to decades of hard work, innovation and strategic investment.

Its commitment towards developing new products with its breakthrough innovation and relentless drive for quality enables its customers to enjoy better sleep.

Through continuous innovation and product development, Slumberland was the first manufacturer to launch the anti-dust mite

bed. (Source: Slumberland website viewed June 2011).

Singapore's long-term aim is to be among the world's most research-intensive, innovative and entrepreneurial economies to attract talent and generate intellectual property - thus enhancing its competitiveness.

Innovation helps change the way businesses work and fosters a more effective use of scarce resources, which is important given Singapore's small and limited availability of land and human capital.

Various measures in the past were initiated by the government towards supporting private sector research and development (R&D) activity and commercialisation.

In Budget 2008, R&D tax incentives were introduced with the aim of making Singapore a more competitive location for both small and large companies to undertake R&D activities.

In tandem with the government's effort to encourage more investments by businesses across a broader range of activities along the innovation value chain including R&D, the Productivity and Innovation Credit (PIC) was introduced in the 2010 Budget.

Companies in the manufacturing and services sector were eligible to claim up to 100 percent and 150 percent tax deduction respectively on its qualifying R&D expenditure incurred on R&D activities undertaken, whether directly or outsourced to R&D organisations for a period of 5 years from Years of Assessment (YA) 2009 to YA 2013.

The PIC scheme has been further enhanced with the recent 2011 Budget announcement. Businesses can now enjoy a tax deduction of 400 percent on its qualifying R&D expenditure subject to an expenditure cap.

Any excess qualifying R&D expenditure over the expenditure cap on R&D activities carried out in Singapore is eligible for 150 percent tax deduction.

SINGAPORE NEWS

BDO China visits Singapore

From May 12-14, BDO Singapore played host to partners from BDO China, who stopped by Singapore on their way to Australia.

A seminar conducted by Singapore partners outlining BDO Singapore operations, Singapore business and potential collaboration opportunities between the member firms was presented to the partners during their visit.

Coming from various parts of China, including Beijing, Shanghai and Guangzhou, the Chinese partners gained additional insight into how the Singapore office was run.

BDO Singapore is glad to have received the partners from BDO China and warmly looks forward to more international delegations from across BDO offices in the world.



With respect to R&D activities outsourced to an overseas R&D organisation, no enhanced deduction will be available to the company. However, companies will still qualify for 100 percent tax deduction on its qualifying R&D expenditure.

The annual expenditure cap is at S\$400,000 for YA 2011 to 2015. To enable businesses to enjoy maximum benefits under the PIC, the annual expenditure cap of \$400,000 is pooled to give a combined cap of S\$800,000 for the period YA 2011 and YA 2012 and S\$1,200,000 for the period YA 2013 to YA 2015.

Below is an illustration of the potential benefits on the implementation of the PIC scheme by businesses carrying on R&D activities in Singapore:-

Years of Assessment	Expenditure cap	Enhanced deduction under PIC
2011 and 2012	S\$800	S\$3,200,000 (400 percent x S\$800,000)
2013 to 2015	S\$1,200,000	S\$4,800,000 (400 percent x S\$1,200,000)

Companies have the option of claiming R&D expenses in a form of a tax deduction or converting part of its qualifying expenditure into cash. With the cash payout option, businesses can convert into a maximum cash payout of S\$30,000 per year available from YA 2011 to 2013.

Businesses which are loss making may not require the tax incentive but can consider availing themselves the cash payout option.

The government has also recognised that R&D investments and activities carried out by companies especially Small and Medium Enterprises (SMEs) would strain their financial cash flow considerably.

To help the SMEs with cash flow and to further encourage investment in R&D, a tax deferral option was introduced in 2011.

To find out if your company qualifies for the PIC scheme and how it could benefit your company, please contact any of our tax advisers for a discussion.



SINGAPORE NEWS

BDO sponsors ACCA Graduation Ceremony

Held on May 14 at the Raffles City Convention Centre, BDO Singapore was honoured to be Platinum Sponsor of the graduation ceremony once again, alongside KPMG and RSM Chio Lim.

This year, 150 ACCA graduands were conferred their certificates. We are pleased that our very own Senior Audit Associate Ms Shelly Wang and Tax Associate Mr Lee Yum Hwa, both from BDO Singapore also received their graduation scrolls that day. Audit Partners Mr Lai Keng Wei and Mr Rick Chan were VIP guests.

A BDO recruitment booth was set up and our people were on hand to answer queries the graduands had pertaining to pursuing a professional career in the industry, and specifically at BDO.

We received plenty of enquiries from a pool of interested candidates which we could use for recruitment.

A hearty congratulations once again to our newly minted ACCA graduates!



S-Chips – Are They To Be Written Off?

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By 31 May 2011, S-Chips, being entities with operations in China that are listed on Singapore Exchange (SGX), are expected to have reviewed and improved their existing system of internal controls with regards to the adequacy of safeguards over cash and other critical assets.

In addition, they are expected to incorporate a new provision in the Articles of Association on their key PRC subsidiaries to grant the Board of the S-Chip the right (subject to compliance with applicable PRC laws and regulations) to appoint and remove their legal representatives of those PRC subsidiaries by then.

Considering the spate of corporate scandals which continued to plague the S-Chips despite the round of measures introduced by SGX earlier, industry watchers were thus not surprised when SGX announced this round of measures in mid March 2011 to reiterate the Board's and Audit Committee's responsibilities in protecting the interests of shareholders which includes the safeguarding of the assets of the group of entities.

Should PRC subsidiaries be viewed as ticking time bombs?

The Chinese saying “宁可杀错不可放过” may resonate with some prudent industry watchers who advocate for all PRC subsidiaries to be identified as heightened risk areas and to leave no stone unturned in the quest of detecting irregularities.

On the other end, others may take the view of another Chinese saying “不要一竹竿打翻全船人” and are thus not inclined to write off the entire population of PRC subsidiaries as ticking time-bombs based on a handful of cases.

That said, corporate scandals are not just confined to PRC subsidiaries.

It may be wise for investment holding entities, whether listed or not, with significant overseas subsidiaries to consider the implementation of the preventive measures suggested by the SGX, whether or not they are S-Chips, to protect the interests of the shareholders and other stakeholders.

Role of external auditors - Placing safeguards over cash and other critical assets

Possibly in consideration that a salient similarity in most of those corporate scandals lies in the irregularities in cash and bank balances, SGX stressed the importance of putting in place adequate safeguards over cash and other critical assets.

The SGX has also called for S-Chips to engage qualified professionals to review and provide recommendations for improvements to the existing system of internal controls.

S-Chips are then expected to implement these recommended controls and have these controls tested for their operating effectiveness by the professionals.

The definition of critical assets is not put forth in the bulletin but it is not unreasonable to assume that significance of those assets will be judged by its materiality to the books of the Group. They will ordinarily include cash, property, plant and equipment as well as inventories since these items are usually material and susceptible areas for fraud.

There is an inherent expectation gap between the public and external auditors on the latter's role and responsibilities in such corporate scandals, as to whether a clean report issued by the latter gives users of the report assurance on the operating effectiveness of the system.

¹ One would rather kill the wrong man than to let a guilty man go free.

² One should not write off everyone with just a stroke of brush without due consideration.

External auditors are bound by the Singapore Standards on Auditing to

INTERNATIONAL SNIPPETS

Managing partner of BDO Russia voted the country's best audit manager

According to the magazine Career, managing partner of BDO in Russia, Andrey Dubinsky, is the 'best audit manager' in the country.

Andrey is at the top of the 50 best audit managers list, based on the research of the magazine's experts.

This research was conducted in two phases:

Phase 1 - Representatives of 120 companies working in audit named the best professionals in the industry.

Phase 2 - The experts evaluated the participants on a ten point scale using eight professional criteria: personal and professional reputation, professionalism, interaction with clients, cost-effective solutions, company reputation, its business profile and quality of services. As a result of this evaluation Andrey Dubinsky scored the highest points – 47.15.

In addition, this rating also includes another BDO partner, Elena Khromova (who came 24th) and senior partner Natalia Kharlamova (who came 48th).

New Head of International Quality Control

Patrik van Cauter will be taking on the role of Head of International Quality Control, effective 1 July 2011. Patrik, who was managing partner of our Belgian member firm until mid 2010, will be joining the Quality & Risk Management team. Patrik has been with our firm in Belgium for more than 30 years and has a great knowledge of the BDO network.

obtain an understanding of the entity and its environment, including the internal controls relevant to the audit, for the purpose of designing audit procedures that are appropriate in the circumstances.

During the course of their work, external auditors may come across significant deficiencies in the design and/or implementation of the controls, and where applicable, the operating effectiveness of those controls.

They would then highlight the findings to management and as part of their value-adding service and put forth their recommendations to improve the entity's system of internal controls.

Unlike internal auditors, external auditors are not engaged to purposely assess the adequacy of the design internal controls nor to express an opinion on the effectiveness of the entity's system of internal control.

Nonetheless, entities may consider holding a discussion with their existing external auditors to obtain an understanding of the relevant controls that may be reviewed during the external auditors' course of work and the extent of their work performed on those controls for the purpose of their audit. Findings from such discussions may be useful as a platform for entities to further improve their existing system of internal controls.

Incorporation of Legal Rep Provision

SGX requires S-Chips to incorporate a provision in the Articles of Association of its key PRC subsidiaries to give the Board the right to appoint and remove their legal representatives. While this measure is implemented to ensure that legal representatives can be removed as and when deemed fit by the Board of the S-Chip, it remains to be seen as to whether such a clause could be practically enforced in China.

Importance of audit quality

Subsequent to the round of measures, external auditors may heighten the risks in reported assets in PRC subsidiaries during the course of their audit. Additional audit procedures might be designed and/or additional

samples might be performed to address the heightened risk areas to satisfy the expectations and requirements of the regulatory bodies as well as to obtain the necessary assurance required for the auditors to express an opinion on the Group's financial statements.

While there is a fine line between being cautious and overreacting, an effective and efficient audit is essential not only to provide assurance to shareholders on the actual financials of the Group but also provide an avenue for issues to be surfaced.

The Singapore Standards of Auditing (SSA) 600 partly specifies that the professional competence of the component auditor should be considered by the Group engagement team.

The Group engagement team's ability to be involved in the work of the component auditor to obtain sufficient appropriate audit evidence should also be considered by the Group engagement team under the SSA 600.

These are cited as they are viewed as factors that will impact the quality of the Group audit. It appears that external auditors with a strong network of member firms around the world applying a uniform set of policies and procedures and international audit methodology will have an edge in providing a quality audit as they are equipped with the necessary resources to carry out an effective and efficient audit of the entire Group.

Consequently, Group entities may want to take this into consideration when choosing their auditor.

In perspective

While industry watchers may be of the view that most S-Chips will be able to comply with the requirements by the stipulated deadline, it remains to be seen whether the implementation of these procedures will put an end to corporate scandals. However, one thing for sure is that it will be a journey for stakeholders to regain confidence in S-chips.

With countries around the globe and especially in Asia stepping up efforts

INTERNATIONAL SNIPPETS

BDO announced the appointment of a new member firm in Brazil

BDO, the world's fifth largest accountancy network, has today announced the appointment of a new BDO Member Firm in Brazil, effective 31 March 2011.

The new firm's chairman and CEO, Raul Correa da Silva, founded the firm in 2001: BDO RCS Auditores Independentes was formerly part of the Crowe Horwath network. The firm has grown through a number of mergers in the past 5 years and currently has some 250 partners and staff, working from 6 offices across the country. Their fee income in 2010 amounted to over R\$20 million (€9 million). Audit and accounting make up the bulk of their revenues but they also offer a full suite of tax, corporate finance, risk management and other services.

BDO appoints new member firm in Tajikistan

BDO, the world's fifth largest accountancy network, is pleased to announce the appointment of a new member firm in Tajikistan, effective 21 April 2011.

Previously operating as audit and consulting company Asian Business Group (ABG), established in 2005, BDO Tajikistan will be centred in Dushanbe, the country's capital, and foresees a considerable growth in income in the next few years.

The new firm will be owned by Firuz Bulbulov and BDO Eurasia B.V., a company formed by BDO and its member firms in Cyprus, Georgia, Israel, Kazakhstan, Russia and Ukraine, with the objective of developing BDO activities in the Eurasia region. BDO Azerbaijan joined this group of firms in October 2010.

Building Your Brand With CSR

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'Sustainability' and 'Corporate Social Responsibility (CSR)' are current buzzwords. From the business point of view, sustainability should be an essential part of the brand.

Research shows that there is a relationship between a brand's 'meaningfulness' and its perceived sustainable performance. The more meaningful the brand is, the more sustainable it appears to consumers.

Consumers have been growing wary of general marketing tactics. They are resourceful and informed, and able to sift out half truths and tall tales. They have the power to punish if brands go wrong on their marketing and communications and reward what's good. They fight through clutter; close to 3500 commercial messages a day, all in search for "true" messages. Consumers believe that corporations should do good in the marketplace.

Havas Media published in late 2010 that only 33 percent of brands are considered meaningful to consumers worldwide. In a survey of over 30,000 people spanning 4 continents and 9 markets, Havas Media found that the majority of mainstream consumers would remain indifferent if two thirds of today's global brands disappeared in the future.

This progressive awareness and concern about issues related to the products consumers purchase have resulted in a surge in demand to understand where the products are from, how they are manufactured, and if there are external benefits to be gained.

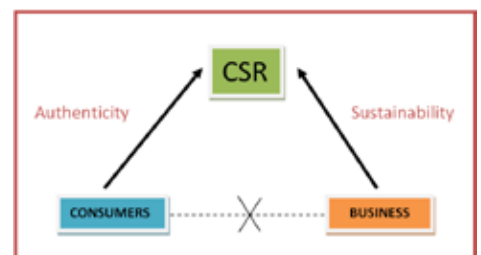
This is harmonised with the growth and importance of social media where people rely on the opinions of others to make their purchase decisions. The bottom line is that consumers want to feel that their needs matter, and that they are empowered to make a positive difference through their actions.

Should businesses win consumers' hearts at the cost of profit maximisation interests? The fundamental reason why a business exists is to make money.

Profits allow businesses to thrive, innovate and continue serving their consumers - in terms of meeting needs or solving problems.

The relationship between society and business is intricate, with the welfare of one depending on the interests of the other.

To unite the goals of both consumers and corporations - CSR would be the way to go forward.



Source: BDO Methodology

CSR has many definitions due to disagreements on its role for the corporation in society. The traditional approach is the philanthropic model where corporations donate a certain share of profits to charitable causes.

The alternative approach would be to focus on operating the core business in a socially responsible manner, with investments in communities for business purposes.

CSR is not a liability to companies, but an asset. There is a misconception that CSR activities use critical resources, thus causing net profits to decrease. CSR actually helps businesses think long term. Businesses first learn to improve the conditions of the company's workplace, and then in a broader sense the marketplace, and thereafter the environment and community.

Social responsibility, if managed well, should enhance the competitiveness of a business in the marketplace and help maximise the value of wealth creation to society.

At Banyan Tree Resorts, CSR practices are seamlessly integrated into the core business model, strategically and passionately.

The brand believes in driving sustainable development, toxic turned into a flourishing tropical garden. That was in 1994.

Since then, Banyan Tree has been actively helping many local communities preserve their culture and has championed various environmental causes.

Their triple bottom line - economy, society and environment directs sustainable development by inspiring associates, guests and partners to consider a long term view when making business decisions.

Brand owners should understand that CSR is a process subjected to the external environment of the firm and there is no one-size-fits-all strategy.

There are different emphases in different countries, and cultural norms and values will shape the behavior of businesses.

The diagram below by Mallen Baker from mallenbaker.net aptly depicts the various stakeholders of businesses.



Source: Mallen Baker, n.d.

The four areas shown above depict framework, creating guidelines, relating to different stakeholders, which can be assimilated into businesses.

Some simple suggestions on how to implement CSR practices:

Community

- Support more local community projects within your supply chain
- Purchase or procure fair trade products that support workers in developing countries (e.g. The Body Shop)
- Champion a cause (e.g. Ichiban Boshi recently raised funds for Japan Quake & Tsunami Relief. They incorporated this fund raising into their promotions, stating that 10 percent of sales proceeds at all their restaurants and outlets as well as the sale of all Fiesta cheesecakes between a certain period would be contributed to help victims of this catastrophe.)

Environment

- Use more energy-efficient appliances at the workplace (e.g. light bulbs)
- Have a recycling programme at the workplace
- Participate in Earth Hour and beyond (e.g. CapitaLand Properties switched off non-essential lights and organised a 'Wear Less Day', encouraging staff and participating office tenants to dress down with the higher air-conditioning temperatures at their workplace.)

Marketplace

- Practice good corporate governance
- Support local suppliers as this would lower carbon emissions of transporting from overseas back to home market
- Improve customer service standards (e.g. Ritz Carlton)

Workplace

- Provide a safer working environment and educational assistance to employees
- Improve contractual relations with employees
- Enhance gender equality in the workplace
- Have a better work/life balance

for employees (e.g. Singapore General Hospital ensures that the recruitment process is sensitive, non-discriminatory and based on skills and qualifications. They also customise training and development programs for employees, and have in place assistance plans for staff reaching retirement.)

- Provide Equal Employment Opportunities (e.g. Thai Express Concepts has provided employment for over 150 socially-disadvantaged persons, including the disabled, ex-offenders and youths-at-risk since 2003.)

To win the hearts of consumers, brands should look inwards to inspire. Brand owners need to be clear what is distinctive about their brand and how they can incorporate CSR practices into different functions of the business.

A CSR committee can be formed to generate ideas of incorporating CSR strategies. This would not only empower internal stakeholders to make decisions that can add value to the business, it would also impact their personal lives as well as external stakeholders'.

Core values of the company can be expressed through CSR practices, reinforced and communicated to all stakeholders, such that the brand's reliability will be further pronounced.

Going by the principle that a "meaningful" business is a sustainable one, this thus achieves the objectives of all for the common good.

Inject love and authenticity in the business world today, and the multiplier effect could be tremendous.

The article was published in The Business Times, SME Inc in May 2011.

Resistance to Family Business Succession

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Succession planning is often deemed a “taboo” topic in Asian family businesses. Not only is it associated with dreaded words like death and disability of the incumbent family business leader, it often triggers sibling rivalry and jealousy.

The recent case of casino billionaire, Stanley Ho’s succession planning in Macau which went into a disarray could deter incumbent family business leaders from considering this move as part of the strategic vision and planning for the organisation.

Worldwide, only one third of family businesses successfully make the transition from each generation to the next according to studies by BDO Australia. Some other studies by BDO Australia even suggest that only around 5 percent of family businesses can still create shareholder value beyond the third generation.

The “succession candle’s flame” needs to be passed on, but when exactly is a favorable time for such an exercise?

BDO’s research in Europe and Australia has shown that by the time the incumbent leader reaches the age of 65, if there is no succession plan in the pipeline, the generational transfer will likely not proceed in an orderly manner.

Among the many reasons that incumbent leaders are not willing to initiate a

planned succession process is deciding between two or more capable siblings. This is often cited as the top rationale for not discussing succession planning. Incumbent leaders find it difficult to choose one over the other as this may hurt the family members - a difficult and emotion-laden problem.

A situation where there is no capable successor in sight creates an additional dilemma to the incumbent business leader. Forces operating against succession planning are not just confined to those involving incumbent leaders.

Families are another source of pressure. The founder’s spouse is usually reluctant to welcome and encourage a partner’s move into retirement. He or she too, may not relish the prospect of giving up many key roles played in and around the family business.

A founder’s spouse would have had direct involvement in the business; the company would have been a centre of activity and a significant part of the spouse’s social identity.

Asian family taboos also play a role. Cultural norms that govern Asian family behaviour discouraged discussion between parents and the next generation about the family’s future after the parents’ death. This is particularly sensitive for issues relating to financial matters and allocating funds.

Succession planning involves an open discussion of precisely these topics and is usually avoided even in well-adjusted families.

Doing nothing about the succession is often disastrous for family businesses. Yet many incumbent leaders and their family members are reluctant to give up control. They prefer to live with ambiguity, choosing to avoid the situation.

Employees can also present obstacles to succession, even though the prosperity and continuity of the family business are in their best interests. For many employees, especially senior managers, their close personal relationships

with the founder constitute the most important benefit of working for the family business. Replacement of the founder with a new successor, viewed as inexperienced and likely to make sweeping changes, is seen by employees as a threat to their job satisfaction and security.

External worries about change also play a role. External to the firm, important customers are likely to be resistant to change and reluctant to trust a new face. Similarly, the unwillingness of other entrepreneurs - the incumbent leaders’ peer group - to deal with their peer’s successors reinforces the incumbent leaders’ bias against planned management transition.

Incumbent family business leaders thus have to face a range of complex and interrelated resistance - psychological, emotional, family and employee pressures. It is hardly surprising that so few family business founders are willing and able to organise effective succession planning.

There is no simple way for a transfer from one generation to the next. A strong sense of purpose is needed for successful succession planning.

There are many decisions the incumbent leader would have to make in the course of succession planning and the willingness and intention of the incumbent leader to plan for their succession is often a decisive factor determining whether the exercise survives or fails.

We provide an analogy of family business succession planning and flying a plane: There is not much danger when the plane is in the third hour of flight, but at take-off and landing the aircraft is much more vulnerable to an accident.

The point of succession is very much like landing and taking off again. It presents a radically greater threat of danger than is posed by any of the other periods in the history of a family business.

The article was published in The Business Times, SME Inc in May 2011.

What You Need To Know About Shareholders' Disputes

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Shareholders' relationships can spawn considerable disagreements which may lead to acrimonious litigations.

Shareholders' disputes generally arise when there is little or no business trust among the shareholders or between shareholders and directors.

Some common reasons for shareholders' disputes are:

1. Differing business interests
2. Breach of directors' duties
3. Failure to provide financial and statutory information
4. Exclusion from meetings
5. Differing views on company's management and strategies.

The first step you may take to resolve a dispute is to seek external advice. Such advice can be from a lawyer, accountant or another business advisor, depending on the nature of the dispute.

If the relationship has broken down completely and both parties feel that they are no longer able to work with each other, an option may be for one party to buy out the other.

The value of the shareholdings will need to be assessed and to do this, the company will have to be valued first. This applies to private companies only. In such instance, an expert valuer, usually an accounting firm, may have to be engaged to determine the value of the company.

Our Business Restructuring Services (BRS) team has been engaged on numerous occasions to assist in such valuation exercises. If you are a minority shareholder, you may feel that your interests have been prejudiced. You may have been excluded from the



management of the business or you are concerned that other shareholders are operating the business contrary to your interests or against your wishes.

In this regard, you may seek lawyers' advice regarding possible minority oppression or possible breaches of clauses in the shareholders' agreement in which there may be remedies that you can seek to safeguard your interest.

As the aggrieved shareholder, you may also have the option of applying to the court to wind up the company on the grounds that it is just and equitable to do so especially in cases where there is possible minority oppression or breaches of clauses in the shareholders' agreement.

Winding up a company is however, a drastic remedy in that it would lead to the end of the company. After a winding up order is made, the company would no longer be able to continue its business.

Investigations into the affairs of the companies, including the acts of the directors and officers of the company, may be undertaken by the liquidators to ascertain whether any wrongful, fraudulent and / or prejudicial acts have been committed against the company. Our BRS team has also been engaged on numerous occasions to act as liquidators under this circumstance.

With instances where shareholders suspect that there are wrongful / fraudulent acts committed by other shareholders / directors of the company, they may engage accountants to review the books and records of the company to ascertain whether their suspicions are founded.

Our BRS team has previously been engaged by a shareholder of ABC Pte Ltd to review its books and records as the shareholder (who is also a director) suspected that there were fraudulent / prejudicial acts committed by a fellow shareholder / director.

However, the suspect director of ABC Pte Ltd refused to allow our client to gain access to the books and records.

As such, our client had to apply to the court to obtain an order to allow him to gain access to the books and records of ABC Pte Ltd, in which he was successful.

No matter what differences the shareholders have among themselves or with the directors, it is best to seek professional advice early. There are many options to resolve shareholders' disputes.

It will be best for all parties to settle the dispute and allow parties to exit or get on with running the business.

INTERNATIONAL BUSINESS SERIES:

Czech Republic - The Gateway To Eastern And Western Europe



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Over the last decade the Visegrad Group (also known as Visegrad 4, or simply V4), consisting of the Czech Republic, Poland, Slovakia and Hungary, has gained substantial international prominence as rapidly emerging investment destinations for many enterprises from Asia, Europe and America.

In 2004, these former communist countries of the Eastern European block became fully-fledged members of the European Union and the Schengen area; further enhancing their openness in relation to cross-border trade, inward investment opportunities and employment migration.

As the 4th largest European market, assuming the Visegrad Group is a single country, comprising a combined population of approximately 65 million inhabitants, the Eastern European locale is now regarded as the second most attractive place in Europe for investment and is, not surprisingly, attracting a double digit inward

investment increase.

Amongst the Visegrad Group and other Eastern European countries having recently gained the accession into the EU (Estonia, Latvia, Lithuania and Slovenia), the Czech Republic stands out in terms of meeting investors' criteria, having sought-after capabilities, well-constructed policy making and ambitious long term goals.

The Czech Republic has undergone a thorough transition from a highly regulated economy dependent on manufacturing and agriculture to a market economy fully open to international knowledge, sustainable development; now possessing sound reputation and a safer, more predictable environment.

The past political struggles associated with the communist era have been overcome leading to a sustainable and predictable investment environment with stable tax rates, frequent inter-government visits and a positive after-crisis GDP growth sentiment in Q1 2011 of 2 percent (GDP in the recent years: 6 percent, 7 percent and 4 percent in 2007, 2008 and 2009 respectively) in contrast with some other deeply indebted western countries suffering from high unemployment rates.

The Czech Republic has also demonstrated ambitious and determined efforts to move the nation forward.

Some of the reasons supporting the Czech Republic as an attractive investment destination are as follows:

1. Conveniently located at the heart of Europe

The Czech Republic is situated right at the centre of Europe and has proved to be an important gateway to Eastern European emerging markets as well as established markets in the west.

This significance has grown substantially since its accession into the EU.

2. Appealing governmental aid schemes

There is a wide range of effective and transparent incentives provided either directly by the Czech Republic or indirectly under the auspices of the European Union (EU).

For example, in Research and Development (R&D) an enterprise may enjoy deductions of all R&D related expenses; grants provided by the National Research Program and EU Structural Funds toward setting up, development and upgrading R&D infrastructure and science parks.

Furthermore, employee and job creation grants, corporate tax exemption, training grants and site support are, amongst others, the available business benefits of investing in the Czech Republic.

3. Flourishing levels of investments

Inward Foreign Direct Investment (FDI) has been increasing tremendously in the manufacturing and services sectors.

aerospace, life sciences, electrical engineering, nanotechnologies, Info-Communications Technology, R&D and business support services. Countries as diverse as India, Singapore, USA, Japan, Taiwan, Germany and many others have found reliable and beneficial partners in this thriving market. The Czech Republic is thus referred to as a strategic services hub in the Central and Eastern Europe (CEE).

4. Ambitious and well-educated workforce

Some of the oldest and largest technical universities in Europe are located in the Czech Republic, together with an internationally recognised and well-reputed educational system underpinning its competitive advantage.

It thus comes as no surprise that the highest ratios of science and engineering student populations and the percentage of students attending vocational and upper secondary programmes across Organisation for Economic Cooperation and Development (OECD) and EU are found in the Czech Republic.

More importantly, this highly skilled, well educated and striving workforce predominantly bilingual in English and German is available at far more favourable cost as opposed to its western counterparts.

The value delivered for today's knowledge-based and innovation-driven markets is in this manner significant.

In addition, a number of breakthrough inventions that Czechs have discovered

are contact lenses, sugar cubes and lighting rods to name a few.

5. Well-developed infrastructure already in place

Superior infrastructure, which is one of the densest in CEE and with yet many projects underway, has proved to be a tremendous advantage upon which many investors have made their decision to come to the Czech Republic.

The interconnectedness and convenient proximity to its neighbours are attributed to a solid network of fully developed and maintained railways and highways.

6. Business-friendly environment

A transparent business environment, international collaboration, investment protection and trustworthy reputation are synonyms to the Czech Republic.

In fact, the country strives to maintain and further perfect its international credibility and is hence a member of some of the most vital organisations in the world such as the OECD, North Atlantic Treaty Organisation (NATO), International Monetary Fund (IMF), World Trade Organisation (WTO), World Intellectual Property Organisation (WIPO), and Multilateral Investment Guarantee Agency (MIGA).

A large number of international enterprises have made the decision to establish their presence in the Czech Republic.

In making their investment decision, they have considered the size of

these already-developed and other developing markets further toward the east, increasing purchasing power and promising opportunities presented.

A growing number of Asian businesses and other enterprises currently attaining tangible and ongoing results of successful investments include:

- Infosys and Lloyd from India
- Tewa from Israel
- Daikin from Japan
- Wistron from Taiwan
- A consortium of Toyota, Peugeot, and Citroen Automobile and their cutting-edge manufacturing centres

Companies closer to home investing include household names from Singapore such as The Chocolate Factory, Gan Hup Lee, Tong Garden Food, Seng Hua Hng Foodstuff and Tee Yih Jia Food Manufacturing which have established a footprint in the Czech Republic.

In conclusion, the Czech Republic has been placed at the top of investment-attractiveness rankings on a yearly basis in line with solid outlook in the years to come.

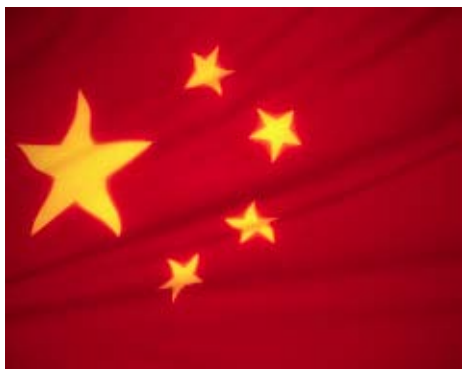
This makes the Czech Republic a stable and sustainable environment for foreign investments, where future growth, credibility and decisive decisions are believed to continue in the long term.

To discuss more about market opportunities in the Czech Republic and how they may be relevant to your business, please contact our Internationalisation Advisory Group, Management Consulting.



Auditing Cash Balances In China

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The string of cash incidents occurring in SGX listed companies, mainly those with operations in China, has increased scrutiny over cash holdings indicated in the financial statements.

In most of these cases, cash indicated in the accounting records is not what is physically available at the bank.

This misstates the financial position of the company and will have corresponding misstatements on the other side of the accounting entries, which is usually and most worrying, accounts receivable or sales.

Banks in China are governed by many legislature such as China Company Law (公司法), Banking Law (银行法), Cash Management Act (现金管理条例),

Cheque Management Regulation (支票管理制度), Provisional Regulations for Bank Resolution (预留印鉴管理暂行办法) etc.

These legal requirements form the broad based compliance requirements for banks. However, many operational aspects of banks seemed to differ from bank to bank and from province to province.

In many cases, the same bank could have different practices in different provincial branches. Also, there are many banks in China and provinces could have their own local banks.

These banks are smaller and serve mainly the local population and the local businesses. Such banks could also have their own local practices to cater to the local business customs.

Hence for auditors, validation of bank balances vis-à-vis the ledger balances, should not be based on a checklist of fixed audit procedures.

In some cases, certain practices, although not what is common to practices of say, Singaporean banks, might just be the standard practices of the bank and there will not be much that the company can do to change these practices.

The following are some example of practices which increases the difficulty

of validating cash balances through standard audit procedures.

Bank account opening

Corporate bank accounts can be opened by legal representatives of the company and does not usually require Board resolutions. Hence, there is a danger of secret bank accounts which is only known to the legal representative.

This might be imposed as an internal requirement but banks will be willing to open bank accounts as long as the legal representative says so.

Use of seals to authorise transactions

Instead of signing on cheques or other bank documents to effect transactions, the de facto mode of authorization is through seals (or rubber stamps) which are designed with the name of the company or appointed individuals.

Some banks recognise a combination of seal and signatures but seals are still the most common mode of authorisation.

Hence, custody of the stamps become important as the wrong hands could do a lot of wrong things with those stamps.

Inevitably with the constant travel schedules of business owners, these seals are entrusted to employees so it becomes a concern as to who can hold the seals.



Very often, the cashier, who is a junior staff gets to control the seal mostly for convenience as he or she are issuing cheques but also becomes in many companies, the cashier is usually a trusted staff of the owner and sometimes a relative.

When viewed from internal controls perspective, entrusting such large amounts to a junior staff can invite a lot of problems later but it will be difficult to get business owners to place their trusts in any other individuals, notwithstanding their seniorities or positions in the company.

Bank mandates

In China, it is difficult to seek direct confirmation from the bank on who is allowed to authorise transactions.

Generally, bank facilities are operated at minimum with the legal representative seal, or in combination with the finance seal, which is a special seal for the finance function.

However, any changes to the Bank mandates will be hard to identify or trace. Also, only some banks allow approving limits, like requiring more seals for bigger value transactions but this is quite rare.

So it is difficult to enforce greater scrutiny for large transactions through more seals like we are used to for banks here with a combination of Group A, B and C signatories.

Bank statements

Some banks are still printing statements for their customers on paper, from dot matrix printers- which is the type with the perforated seams and the holes at the side.

These statements might not be stamped or signed off by the bank and hence, if the company reconciles their ledger cash balances to these statements, it becomes hard to verify whether the right documents have been used to reconcile the cash ledger against.

Other than the above, some banks could have rather small operations in local provinces. And since relationships are often quoted as the basis for corporate success in China, bank personnel tend to be quite friendly with big customers.

Hence, certain requests from bigger customers might be acceded to so as to maintain a good relationship.

This will be especially so for large business owners such as those who manage public listed companies and who will be quite prominent in smaller provinces.

This might be one of the reasons why it was difficult to conduct direct confirmation of bank balances for some of the recent cases highlighted for SGX listed companies operating in China.

Rather than work against the system or request for changes that are unlikely

to occur, auditors should recognise the operating model for the respective banks that they are dealing with, make inquiries to confirm that the practices are consistent with the individual bank policies and then design audit procedures to address control deficiencies such as arranging for alternative confirmation of bank balances.

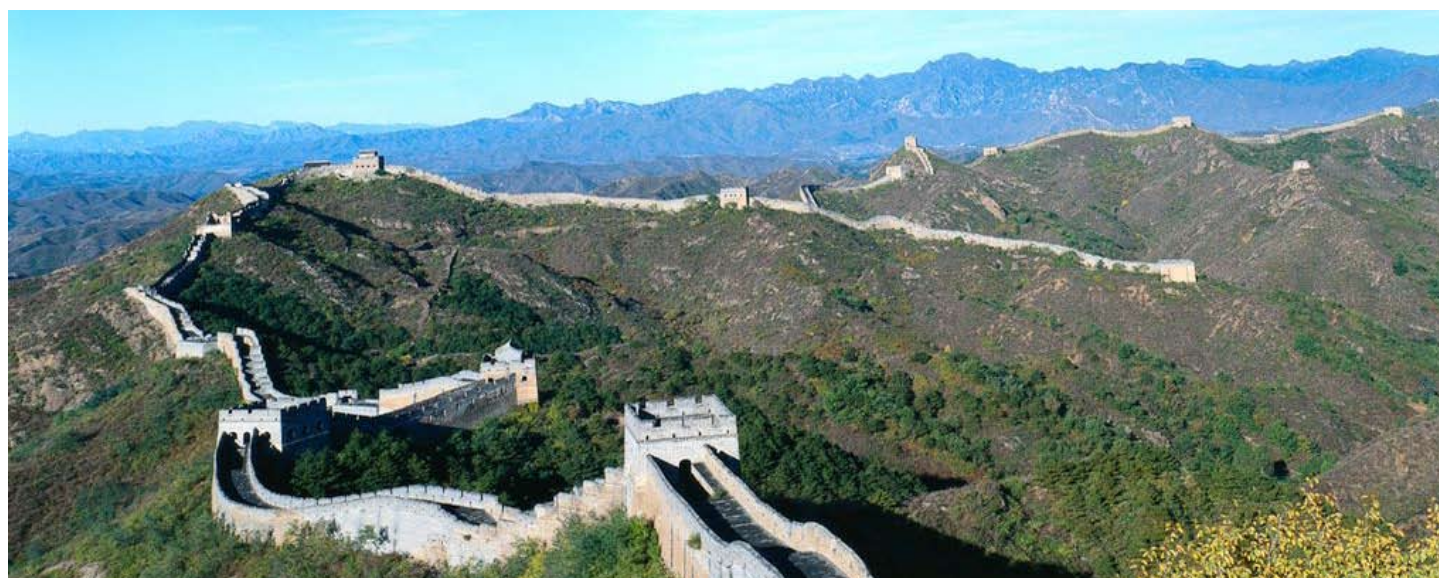
One solution could be to request bank transfers across company accounts to ensure that the money is physically moved or to request for balances through the head office of the bank.

The success of such audit procedures however, depends very much on where the company, who the bank is and what the client is willing to accommodate with.

It also depends on the extent of verification needed since these requests are not likely to be looked upon fondly by business owners.

Given the significance of cash validation, the auditor needs to be able to have reasonable assurance that cash balances are not materially misstated.

This definitely requires auditors to understand the operating environment in China and for them to acknowledge and address the different customs and practices rather than to stick to one standard approach for all audits.



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