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**The Association between Industry,
Regional City Specialization and the
Audit Fee Premium/Discount: Evidence
from Hong Kong SAR, China**

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The Association between Industry, Regional City Specialization and the Audit Fee Premium/Discount: Evidence from Hong Kong SAR, China

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Abstract

This study investigates the relationship between auditor specialization and the audit fee premium/discount in Hong Kong SAR, China. The study has three main hypotheses: 1) that there is an audit fee premium when an audit firm is an industry, regional city and/or regional city-industry specialist; 2) that the audit fee premium increases when a Big 4 audit firm is an industry, regional city and/or regional city-industry specialist; and 3) that the level of audit fees decreases when a non-Big 4 audit firm is an industry, regional city and/or regional city-industry specialist. Both the ranking and market share benchmark methods are used for defining specialists. Also, the two industry classification systems, HSIC and NAICS are tested. In addition, the number of auditees is used to define market share.

The sample consists of more than 1,000 Hong Kong listed companies from 2004 to 2006. Examining auditor specialization across a three year period is a different approach from previous studies, which allows the study to show whether specialist premiums or discounts are stable over time. Results indicate that the three types of auditor specialization examined exist in Hong Kong SAR, China and they are reasonably stable across time. However mixed results are found across the three years in relation with the level of audit fees. The main results provide strong evidence of a fee premium for regional city specialization under various definitions in one year, but these significant results did not hold in the two subsequent years. Some evidence of an industry specialist fee premium is detected in 2004 and 2005 while a discount is found in 2006 under some definitions. Results indicate none of the three types of specialization consistently appears in every year to justify any fee premiums/discounts unless influenced by other economic conditions.

Keywords: industry specialization; audit fee premium/discount; Hong Kong SAR, China.

Data Availability: Data are publicly available.

1.0 Introduction

The relationship between the audit fee premium/discount and industry specialization is an interesting and controversial research area globally. Research studies concerning this area have mainly examined the US (e.g., Hogan and Jeter 1999, Francis et al. 2005), UK (e.g. Basioudis and Francis 2007) and Australia (e.g., Craswell et al. 1995); and occasionally some other places like Hong Kong (DeFond et al. 2000). Hence, I conduct a further detailed research study in this area using evidence from Hong Kong SAR, China, because it will be interesting to compare the results of Asian countries with countries from other parts of the world to determine the extent of industry specialization and the relationship it has with any audit fee premium or discount. This study examines specialization over a three-year period in order to determine whether specialization is stable over time and also to test whether different types of auditors' specialization exist and whether these would affect the level of audit fees under various circumstances. A three-year period (i.e. 2004 to 2006) is examined in this study. An examination of auditor specialization premiums for multiple years has not been done in prior research studies in this area. Most prior studies only looked at one year data and thus will not be able to see whether auditors' specialization fluctuates over time, which this study does.

In addition, this research study can also expand on the existing studies to gain more new insights because the market for audit services in Hong Kong has some unique features and so provides some opportunities for innovation. Hong Kong's setting is likely to show new ideas that cannot be explored elsewhere because Hong Kong has a different audit environment that can illustrate specialization issues and audit fees. More audits are performed by second-tier firms compared to many other countries with the Big 4 dominating the audit market and these second-tier audit firms tend to enjoy the benefits of auditors' specialization in Hong Kong. Therefore, it would be interesting and appropriate to see whether the non-Big 4 specialists charge higher or lower audit fees as opposed to the Big 4. Higher fees will indicate that audits are valued by users and managers, and that audits conducted by recognized experts in an industry or regional city are more highly valued. Discounts would be consistent with greater efficiency.

The main research questions in this study examine the proposition that there will be a Big 4 premium and a non-Big 4 discount in association with industry specialization as well as the new idea of regional city specialization. A combined concept of the joint industry/regional city specialization is also examined to see whether there is any joint effect of being more than a single type of specialist, which is similar to an Australian study conducted by Ferguson et al. (2003) and a recent UK study by Basioudis and Francis (2007) where they both examined city-industry specialization by auditors. These are worthwhile to investigate because of conflicting findings in previous studies and also the non-Big 4 discount is an interesting factor that has not been clearly examined due to the fact that the Big 4 usually dominate the audit market in many countries so it is not of much interest to some researchers. However, second-tier and other non-Big 4 audit firms are starting to play a more significant role in various countries and Hong Kong is certainly a typical example, which should be examined to see whether these smaller firms charge audit fees based on auditors' specialization too. Furthermore, auditors' specialization can lead to both efficiency (which gives rise to discounts) and expertise (which leads to premiums). Therefore, both fee premiums and discounts should be of equal importance when being examined in the study. Looking at both of these will enable a better understanding of who can benefit from auditors' specialization and how audit fees are affected.

Another motivation for undertaking this study is the conflicting findings from prior studies regarding the existence of industry specialization and whether or not it is related to the audit fee premium. Some studies were able to detect a premium associated with industry specialization while some others were unable to do so. Therefore, this study examines 1) whether industry specialization (Big 4 and Top 25 national firms) exists in Hong Kong SAR, China; 2) whether the level of audit fees charged by various audit firms (both Big 4 vs. non-Big 4) is impacted by industry specialization; 3) whether an audit fee premium or discount is charged by those auditors who specialize in Hong Kong companies that have most of their business operations located in specific China regions, i.e., Regional City Specialization; and 4) whether joint regional city-industry specialists lead to audit fee premiums or discounts.

Specifically, industry specialization is examined in three areas: (a) Hong Kong companies only, (b) Hong Kong companies involving China, and (c) Overall industry

specialization. Both industry and regional city specialization are tested for the impacts they have on audit fees in multiple breakdowns: 1) whether there are regional city specialist premiums in particular industries, 2) whether there are industry specialist premiums in China-involved companies, and 3) whether the Big 4 (non-Big 4) charge higher (lower) specialist premiums for large auditees.

As mentioned above, an innovation in this study is to examine whether there is regional city specialization in Hong Kong SAR because it is common for certain audit firms to engage with companies in Hong Kong SAR that are China-involved (i.e., Hong Kong companies that have operations located in cities in China) specifically due to their Chinese branches and expertise in Chinese accounting. It is worthwhile to investigate whether these audit firms charge a premium or discount if they specialize in these China-involved companies because this is of value to financial report users due to a cultural belief of “Tian shi, di li, ren he”, which means the right time, right place and right people. Financial report users would value an audit report from auditors who meet this description and this would increase their willingness to pay higher fees based on the confidence they have with these auditors.

In addition, as this study is related to the audit fee premium, it will also concern the general issues regarding audit fees and pricing, including for example, product differentiation, brand name reputation and monopoly pricing. These issues are of concern because these are issues that have been researched in relation to the audit fee premium in prior studies. Researchers, auditors and audit clients are concerned about these issues because research into these issues provides information about the need for audit services due to both legal requirements and the need to satisfy financial information users and other stakeholders of companies. Researchers and clients are also concerned about whether auditors are beneficial to the companies being audited. The value that is added to the companies from audit services makes clients focus on the level of audit fees charged because as clients, they would want to know what they are paying for and whether the fees are charged at an acceptable level. The existence of a premium suggests that auditing is demanded for more than the minimum legal requirements, and that companies are willingly to pay more than the minimum cost for a better audit. This could be for agency cost, signalling, organizational control and other reasons. Examining these issues enables us to better understand what

affects the level of audit fees and what generates the insight that industry specialization is a possible factor that could affect the level of audit fees as well.

Prior studies regarding these issues are reviewed in chapter 2 (Literature Review) with a review of the prior industry specialization studies in various settings. The remaining structure of the thesis is organized as follows: Chapter 3 discusses the theoretical framework of the study and defines the research hypotheses developed; Chapter 4 describes the research methodology; Chapters 5 and 6 provide the results, analyses and discussions for the tested hypotheses and Chapter 7 wraps up the thesis with conclusions, limitations and future implications of this research study.

2.0 Literature Review

2.1 Overview

This chapter presents a literature review consisting of a brief overview of research about audit fees and audit pricing in general. This is followed by a more detailed examination of prior industry specialization studies. The core literature review of industry specialization is at the end of the section because it is the central focus of the study and it is necessary to have a broad understanding of other related issues before examining the industry specialization studies in detail.

2.2 Audit Fees and Pricing

Over the last two decades, the determinants of audit fees and audit pricing issues have been among the most controversial issues within the auditing research area. This is because they link to the issues of monopoly pricing in the audit market and the demand for auditing. It is commonly argued that monopoly pricing occurs due to a lack of competition in the audit market, which allows the large audit firms to charge higher prices. When there are not many competitors in the market, customers will have to consume from the available audit firms and as supply might not meet demand, customers will have to pay higher prices charged by these firms because they do not

have many choices if these are the only available firms. Also, another argument concerning brand name reputation and product differentiation has opened up a research area for researchers to seek evidence for the factors that cause the level of audit fees to differ. These are further discussed in the latter part of this section.

The first research study on audit pricing was by Simunic (1980), attempting to establish the theory and evidence in relation with audit fees and pricing using US data. The study found that audit fees can indicate various aspects of the audit services provided by audit firms, for example, audit quality. The study also touched on the issues about whether audit firms are industry specialists but did not investigate in detail. Monopoly pricing was the main issue discussed in the study, as the Big 8 were being accused of dominating the audit market due to a lack of competition. Other factors considered in the study included: the level of supplier concentration and the comparison of fees between small and large clients to examine whether price differences are signs of monopoly pricing.

Simunic (1980) also suggested the probability of expected losses of financial statement users depends on both the audit and the company's internal controls. Auditors bear some proportion of any losses and this will depend on the company's state, for example, whether the company is solvent. The management of each client company faces three costs with the objective to minimize them.

The three costs are:

1. Audit costs – costs to engage an audit;
2. Cost of internal controls;
3. Expected losses.

For example, if the audit price increases, the company will need to increase its internal controls to decrease its corresponding control risk and allow auditors to do less work, so internal controls minimize audit costs. Management needs to arrange the level of internal controls in order to minimize total costs. In relation to monopoly pricing, prices will be higher if the Big 8 are monopolizing the market due to a lack of competition. As a consequence, management trying to minimize costs will increase the use of other substitutes, for example, use internal controls to keep costs to a minimum. However, audit services are difficult to substitute, especially when an audit is legally required. As there are no perfect substitutes for audits, the quality of

the financial reporting system will be reduced because the substitute(s) used are obviously different and unable to reach the standard of ordinary audits. This is why the pricing of audit services is critical as a public policy issue and worth the effort of researching.

The main factors that determine audit fees were stated in the early research by Simunic (1980). These include:

1. Size: which can be measured by total assets
2. Complexity: in terms of auditee's operational areas that require special procedures, for example, the number of subsidiaries.
3. Risk: the amount of financial risk that the auditee is facing. For example, the level of profitability, going concern and uncertainty. Simunic (1980) also considered accounts receivable and inventory the auditee holds, the higher the risk to the auditor, because these items are often difficult to determine their accuracy. This is regarded as an inherent risk to the auditor.

Simunic (1980) found no signs of monopoly pricing, and concluded that there was competition with economies of scale to the Big 8. However, the inability to find evidence of monopoly pricing in one study does not prove its non-existence because there could be other possible factors affecting audit fees. This leads to the problem of omitted variables in the audit fee model. Alternatively, the sample size of 397 observations may have been too small to detect such an effect.

Size, risk and complexity are firm-specific characteristics that would affect the level of audit fees. As mentioned above, these are the three main factors controlled for in the audit fee model. Size has always been found to be significant and positive in previous studies, for example, fees tend to be higher when the auditee size is larger. This could be explained by the fact that more work is usually required for larger clients or that these clients can afford to pay more. Risk has been taken into account to show that when audit risk is high, the level of audit fees tend to be high. This is consistent with the "greater risk, greater returns" argument, where auditors are being paid for the risk of sharing clients' losses; so if the client is at greater risk, the auditor should be entitled to charge more to compensate for the risk taking. Complexity refers to how difficult it is to handle the clients' accounts. It can be argued that the

more complex the accounts are, the larger the premium. However, Pong and Whittington (1994) found that when complexity is high, the Big 8 premium is smaller, indicating the Big 8 are relatively more efficient when dealing with complex work. All these factors could have different impacts on the level of audit fees based on different research settings. Therefore, it is crucial to consider each of these factors closely when researching in the field of audit fees.

The most common form of the audit fee model is:

$$\text{Audit Fee} = f(\text{Size, Risk, Complexity, Other Factors})$$

However, different studies measure variables differently to capture different effects. For example, Francis and Stokes (1986) used the number of subsidiaries and the proportion of foreign subsidiaries to measure complexity. Different variables for controlling size, risk and complexity are used for different research purposes and settings. For example, the study of Hay, Knechel and Wong, 2006 referred to a list of these variables used in more than 100 earlier audit fee studies and which includes assets and sales for controlling size; number of subsidiaries, SIC, foreign subsidiaries, number of business segments and number of audit locations for controlling complexity; and inventory, receivables and the two combined for controlling risk.

In summary, this part of the literature review mainly reviewed an early audit pricing study by Simunic (1980) as it is well known and able to provide a foundation of the theory and evidence in relation to audit fees and pricing. The issues discussed in this part include: 1) how the audit fee model is developed in audit pricing studies, 2) how the variables (size, risk and complexity) are defined and other related issues, and 3) other issues that could also affect the level of audit fees such as: audit quality, supplier concentration and the various costs that auditors are associated with. This review enables a better understanding of audit pricing that provides the link to understand how the audit fee premium and industry specialization fits into the research area of concern. The discussions of the audit fee premium, the alternative research methods applied in this research area and the research development of industry specialization now follows.

2.3 The Audit Fee Premium

As discussed in the previous section, audit pricing is a central issue in the auditing industry because it concerns both the accounting profession and the public. In a narrower view of the audit pricing issue, the existence of an audit fee premium is considered to be very important because it is of both the public and the profession's interests to investigate whether audit firms charge higher prices than others because of providing better quality audits or it is merely brand name reputation of the large audit firms ("The Big 4"). For example, Craswell et al. (1995) found a Big 8 brand name premium of about 30%.

Different studies have different findings about the existence of an audit fee premium using different data. For example, Simon (1997) used differential audit fees as a measure of product differentiation and found that the premium observed is "attributable to a subset of large auditors, and therefore it is possible that not all of this group of large audit firms are perceived as offering significantly different audit products". Lee (1996) used the Hong Kong audit market where "a non-Big 6 local auditor has a market share comparable to those of the third or fourth largest Big 6 firms" as a unique research setting for testing a Big 6 premium. A premium was found.

However, the reason(s) to explain the existence of an audit fee premium remains uncertain because results shown in prior studies have been conflicting. Different studies have different results regarding the causes of audit fee premiums. This has made the auditing issue of audit fee premium existence very interesting for researchers because it has opened up many research opportunities for researchers to consider factors that provide better explanations for the existence of an audit fee premium. Also, since this issue is of public interest, it allows people to better understand the audit profession. For example, does a Big 4 premium exist because of product differentiation or brand name reputation? Are there other factors driving this premium? These separate issues concerning the audit fee premium are discussed below.

Firstly, the quality of audit can differ among audit firms. Some firms will simply follow the Auditing Standards while some will do more to differentiate from others to attract customers. This is referred as "Product Differentiation" where auditors are

required to perform according to the Auditing Standards and GAAP, meaning that if the Big 4 want to show their audits are of better quality, they must perform more than the minimum requirements of the standards by undertaking additional audit procedures. If auditors already meet the legal minimum requirements, why would clients desire the “extra quality”? Therefore, whether product differentiation is a result of better quality audits can explain the existence of the premium still remains as an open question. DeAngelo (1981) says that a Big 8 premium is just a function of firm size. The Big 8 charge higher fees because they are larger in size, not because of their brand name reputation or product differentiation. However, Francis and Simon (1987) found the existence of the Big 8 premium implied product differentiation at least in the small client segment because “the premium existed with respect to both second-tier national firms and local/regional firms.” Competition was also assumed in small auditees’ market.

It is understandable that the Big 4 are likely to provide better quality audits because they tend to have better skilled employees since they have better resources to recruit. Their large firm size also enables them to perform more efficiently and thus, producing better quality audits. It is often difficult to determine what “better” quality really is because there are no concrete measures to capture the so-called “extra” quality. Prior studies have been investigating whether extra quality actually exists. The main issue is whether it is the size of the audit firm or brand name reputation that leads to audit fee premiums. Hence, ongoing research is undertaken to further examine the underlying cause(s).

Secondly, the monopoly pricing argument has not been supported by many studies, indicating there is no strong evidence of insufficient competition in the audit market. Elliott and Pallais (1997) stated that the audit profession is facing increased competition as the industry has shifted from the growth stage to the mature stage of the product life cycle; meaning that the Big 4 are not charging higher prices due to their dominant position in the market.

Another study conducted in 2003 by the United States General Accounting Office (GAO) found that the changes in the audit market, could possibly affect the level of audit fees charged. For example, the level of competition is decreasing because there

are only a small number of large firms that could audit the large public companies. Also, GAO found that “smaller accounting firms faced significant barriers to entry” the audit market for the large public firms. These barriers include: insufficiency of staff, expertise, capital formation, global reach, and reputation. Therefore, it is clear that the current Big 4 are not required to expand much further to retain their position based on the market forces because it is so difficult for new competitors to enter or even to qualify for being one of their competitors.

Thirdly, it has been found that the audit fee premium is not necessarily a property of the Big 4 but it has been perceived as the starting point of audit fee premiums (for example, DeFond et al., 2000). Many research studies and findings are based on this issue so it would be useful to review the literature in this area as well. Regarding the Big 4 premium, it simply implies that the Big 4 are charging higher audit fees than the smaller firms. The main concern is why they are doing so. As mentioned above, researchers have been arguing that audit quality and brand name reputation are the main factors for driving this premium. If this is so, does it mean the Big 4 charge higher because they have a better reputation due to their widely known brand name, (Francis and Simon, 1987) or it is because of their large firm size so that they are likely to provide better quality audits through the employment of better staff and the use of better resources, such as more advanced technology?

Francis and Simon (1987) found that a Big 8 premium exists for brand name reputation rather than the presence of monopoly/oligopoly power. Since the Big 8 have been merging down continuously from 6, 5 then now to 4, there is concern about the lack of competition in the audit market. For example, an anonymous article (1998) presented the view that other audit firms are reluctant to enter the audit market because they knew it was difficult to compete with the Big 6's well-established brand name reputation; “Reputation has thus become a barrier to entry”.

Johnson et al. (1995) investigate whether supplier concentration affects the pricing of audit services in New Zealand. They found the Big 5 audit firms are receiving fee premiums in audits of large listed and small unlisted companies. They found evidence of product differentiation by the Big 5 in terms of audit quality in the New Zealand audit market, meaning that it is product differentiation provided by the Big 5

rather than a lack of competition is causing the audit fee premium. Francis and Simon (1987) also found evidence that product differentiation is the cause of the premium, which helps the Big 8 to develop a good brand name reputation. They found a premium exists over other national firms in the US at least in the small auditee market segment and they found that increased competition in the audit market will not reduce a premium resulted from brand name reputation. This means the Big 4 charge higher because clients are aware that they provide better services. Iyer and Iyer (1996) and Menon and Williams (2001) found that mergers had no effect on the level of audit fees, which provides further support of the argument that the Big 6 premium is caused by brand name reputation rather than monopoly pricing.

Palmrose (1987) found that the Big 8 were less likely to have litigation brought against them. A possible explanation could be that larger firms are less likely to make errors due to the provision of better quality services; therefore, it is reasonable for them to charge a premium. However, the issue of concern here is not whether it is acceptable for the larger firms to charge a premium, the issue of concern is its existence and the reason(s) for its existence.

Interestingly, Firth (1993) found evidence of a Big 8 premium after the Big 8 were allowed to use their global names in New Zealand but a premium was not found for the Big 8 in his 1985 study, where the Big 8 had to use different names. This implies the name that could easily be recognized by customers could generate a difference in the level of audit fees charged. Francis (1984) and Pong and Whittington (1994) both provided evidence that a Big 8 premium exists. Bandyopadhyay and Kao (2001) again found evidence of a Big 6 premium resulting from brand name reputation and also found that audit fees decreased when competition intensifies. This was due to the amendment of the Ontario Municipal Act, which removed some barriers from entering the audit market. As more firms enter the market, firms are trying to price lower to attract new customers. Especially the entrants, where their reputations are not as competitive, their only way to attract customers would be to price lower than the larger firms. However, the Big 6 still command audit fee premiums, indicating the fee premium reflects brand name reputation rather than monopoly rents again.

Francis and Stokes (1986) found evidence of a Big 8 premium associated with product differentiation, meaning that larger firms are likely to charge higher fees because they perform better quality audits. Likewise, Francis (1984), Craswell et al. (1995) and Palmrose (1986) all found a Big 6 premium and claimed that this was due to the possibility that these firms provide higher quality assurance services. However, Firth (1985), Baber, Brooks and Ricks (1987) failed to find evidence of a Big 8 premium. Chaney et al. (2004) investigated audit pricing of private firms and they found evidence of a Big 5 premium but found that the results are due to self-selection bias. They found no evidence that the clients' choice of audit firms among the Big 5 and non-Big 5 is random. When they tested for a premium using the normal OLS regressions, a Big 5 premium resulted but when self-selection bias is controlled for, there is no evidence of any Big 5 premium. It was found that the auditees generally paid higher audit fees to the Big 5 than the non-Big 5 due to the firm-specific characteristics and that private firms' auditees do not perceive the service quality provided by the Big 5 is sufficient to demand a fee premium and that second-tier firms are more suited to these clients because these smaller audit firms have more time to devote for smaller clients and will cherish these clients in order to remain competitive. In fact, they are more concerned about cost effectiveness. Also, Simunic (1980) was unable to detect the existence of a premium.

Moreover, the audit profession in the past has been perceived as quite important because reliable audits could often be used to provide users of financial information assurance about the information accuracy. However, due to the scandals in the last decade (for example, Enron), many people are concerned about the reliability of the audit firms. It is logical that people who have some form of relation with audits would want to know how audits are priced. This is why the audit fee premium is a continuous research area in accounting. Francis and Simon (1987) said that the larger audit firms (i.e., The Big 8) are able to demand higher fees as clients are willing to pay for the better reputation of the large firms. In their study, they found a significant positive association between audit firms' size and audit fees in the small auditees segment indicating that audit firms demand a fee premium due to its size. Is it assumable that the size variable can best designate that the audit firms have either good reputation or a brand that is of value to the clients. This finding was also similar to Francis (1984), Francis and Stokes (1986), and Palmrose (1986).

However, this explanation is not supported by all studies, indicating that this is not the only factor that gives rise to a fee premium. For example, Simunic (1980) and Firth (1985) did not find any relationship between audit firm size and audit fees but this could be explained by the fact at that time Simunic (1980) only sampled larger auditees as compared with Francis and Simon (1987). Also, New Zealand was the setting used by Firth (1985) and it was considered as a distinctive market where results are unlikely to be comparable. Generally, a relationship can be found between audit firm size and audit fees in the small auditees segment, which demonstrates that brand name reputation can cause fee premiums under certain circumstances. Furthermore, a more recent study by Chaney et al. (2004) found evidence that a Big 5 premium maybe an illusion because when they divided their sample into public and private companies, they found that public companies (which are usually larger) tend to choose larger audit firms (i.e. the Big 5) due to the well-suited firm-specific characteristics. On the other hand, private client companies tend to engage with smaller audit firms and the authors defined this as self-selection bias. When self-selection bias is controlled for in their study, the size of the premium reduced, indicating that self-selection bias could be the explanation of a Big 5 audit fee premium found in prior studies rather than it being caused by other factors.

This section briefly discussed the previous findings of the audit fee premium in relation to audit pricing. This is one of the central issues in this study because this study aims to expand on the research of the causes and existence of the audit fee premium. From the different and conflicting findings of different research settings mentioned above, it is certainly worthwhile to further examine whether audit fee premiums exist in Hong Kong (a less researched setting) and what the possible causes are. This study investigates the relationship that an audit fee premium has with industry and/or regional specialization, as well as whether it is only associated with the Big 4 and/or the non-Big 4 also. This leads to the need of different research designs, which are discussed in the following section.

2.4 Alternative Research Designs

In today's auditing environment, an audit fee premium may not necessarily be a quality of the Big 4 as mentioned earlier. A premium could exist for many reasons and under different circumstances. Findings are supported with evidence through the use of different research methods. Concerns regarding the audit fee premium have been around for about two decades. Researchers have been trying hard to investigate the different reasons to explain the existence of the premium and this research resulted in various findings. These include: product differentiation, brand name reputation, monopoly pricing, and audit production efficiency as discussed above. As the audit environment evolves, more research has been undertaken to investigate other possible determinants of the audit fee premium and some evidence showed that the Big 4 are not the only firms that could charge a premium, smaller firms could too. Ferguson et al. (2003), in the time of the Big 5, reported that firms with industry expertise were found to charge a premium by 24% when the auditor is both a city-specific leader and is one of the top two national audit firms in the industry. They also found the market perception and pricing of industry specialists are based on office-level and city-specific level leadership. This shows a new factor to fee premiums, which is different from the fact that only Big 4 (Big 5 in Ferguson et al., 2003) can charge fee premiums.

While the monopoly pricing/brand name reputation/product differentiation argument has been in research for a certain period of time (since 1980), researchers have gone into other areas of research relating to the audit fee premium issue. Researchers are becoming more concerned about the reasons to explain why audits are priced differently and have been shifting their focus to research from different perspectives. For example, small vs. large clients (Francis and Stokes, 1986), non-Big 4 firms (Cullinan, 1998), private vs. public audit markets (Palmrose, 1986) and (Ward et al., 1994). Research in this area has extended to other determinants of the audit fee premium such as industry specialization, which is one of the main focuses of this research.

In general, this chapter provides a review of the literature about the different issues that relate to the audit fee premium. These issues are: 1) audit quality/product differentiation, 2) monopoly pricing, 3) brand name reputation due to audit firm size, and 4) the use of different research ideas and designs in audit fee studies. This is the

starting point of this study because it is fundamental to understand the different dimensions of the audit fee premium before investigating the possible relationship it has with industry specialization. From the literature reviewed in this chapter, it has been found that some studies found evidence of a Big 4 premium, while some have not. Therefore, this could imply other factors could also give rise to a premium. This leads to the motivation of this study. The motivation leads to an investigation of industry/regional specialization in a different research setting, which is considered as a possible cause of the audit fee premium by a number of prior studies, such as, Craswell et al. (1995).

2.5 Industry Specialization

An area that has been investigated by prior studies is whether there is a premium for industry specialization in addition to the Big 4 premium. Researchers want to know if firms specializing in particular industries results in fee premiums. Some of the issues, which prior industry specialization studies examined include: It is reasonable to expect specialized audit firms are likely to be more efficient and provide better services when dealing with clients within the same industry of the firm's specialization (Menon and Williams, 2001). Therefore, these specialized audit firms could charge higher fees. However, it could also be argued in the way that firms with audit production efficiency are likely to experience economies of scale and thus, should charge less due to lower production costs. Some early research examined this area, for example, Eichenseher and Danos (1981) and (1982). They primarily focused on cost reduction to explain industry specializations and they proposed that industry expertise allows for audit efficiency and effectiveness or economies of scale so audit production costs will be lower for auditors so they can charge less. For example, the costs of knowledge acquisition and professional training of employees can be allocated over more auditees for industry specialists, meaning that costs can be more widespread. Specializing in a niche market could be a feasible situation for the smaller firms to benefit from fee premiums as suggested by Cullinan (1998) because it is possible for them to be more competitive in the small client segment since small clients tend to have less to spend. Hence, they usually cannot afford the employment of the Big 4. If the small firms could charge less while providing a reasonable audit standard, they are likely to win against the large firms and obtain a good reputation in

the small client segment via continuous engagements. This is particularly applicable to audit markets where there are more second-tier firms' audits; reinforcing Hong Kong is a suitable setting for examining this issue. A more detailed review of the important specialization studies that examined the issues above is discussed below and a table of these studies and results are summarized in Appendix A.

Palmrose (1986) in the US found no evidence that a relationship exists between audit fees and measures of industry expertise, which means that audit firms did not price audits differently due to their expertise in a certain industry. However, the study found a positive relationship between audit fees and audit firm absolute size. That is, larger firms are associated with higher audit fees.

Other factors that are associated with industry specialization include: GAAS violations, which have a negative relationship with industry specialization (O'Keefe et al., 1994). They examined whether compliance with GAAS increases as audit firms' industry specialization increases. Results indicate that the violations of GAAS decrease as audit fees increase and also industry specialization is associated with less GAAS violations. These results could imply audit firms that specialize can produce better quality audits. Therefore, their clients are less likely to violate GAAS.

Craswell et al. (1995) in Australia found that the Big 8 firms with industry expertise received a premium of approximately 34% over non-industry specialists. A positive relationship is found between audit fees and a market share based proxy for industry specialization. Their results support that industry specialization is a basis for product differentiation. They found that industry specialization is attributed to the demand for higher quality audits from the Big 8 and that it is a basis within product differentiation because specialists provide higher quality services as they are usually more familiar with the industry, which enables them to audit more effectively and efficiently. This is considered as a quality difference of the service. Additionally, their results are found to be sensitive to the definition of industry specialization because there are no strict guidelines in the profession stating how a firm could become an industry specialist and the requirements needed to be fulfilled. They used 10% and 20% market share benchmarks as definitions for industry specialization and found the number of industries with specialists decreased when the 20% benchmark was used.

Furthermore, they found a premium when the 10% benchmark was used as a cut-off to define a specialist; but not when the 20% benchmark was used. They also found a premium for large clients but not for small clients in the study, which provides further insights into the area of industry specialization and audit fee premiums but also leaves a number of issues unresolved.

Cullinan (1998) used the US pension plan environment to examine whether smaller audit firms can establish a brand name in a niche market by specializing and hence, benefit from a fee premium. They found that the non-Big 6 with industry expertise (measured by market share) received fee premiums over non-specialist firms (either Big 6 or other smaller firms). This indicates that the non-Big 6 could benefit from market positions in certain niche assurance service markets. “If the assurance service purchasers perceive that their CPA firm’s expertise adds incremental value beyond that of other potential assurance providers, the CPA firm may command a fee premium.” (Cullinan, 1998) Hence, regardless of the audit firm size, a premium could still be charged if the firm has relevant industry expertise that the client perceives to be beneficial. From common knowledge, it is often unlikely for a small firm to specialize in a particular industry with large clients because large clients often prefer to engage with the Big 4 to deal with their large accounts. This is due to the fact that large audit firms are perceived to have better resources and capability of dealing with large accounts because these accounts are often more complex. Cullinan’s (1998) results also suggest that it is better for the non-Big 4 to specialize in a niche market as an alternative.

Hogan and Jeter (1999) found in the US that auditor concentration levels are higher in industries that are regulated, concentrated and rapidly growing. Also, industries with high litigation risk are associated with lower auditor concentration levels and an apparent trend is found that audit firms are trying to increase specialization levels. They found the market leader audit firms increased their market share over time and the market share of firms with smaller market share decreased. Their results suggest that industry specialization could generate returns for the audit firms in terms of increased market share but does not show evidence of an association with an audit fee premium.

In a Hong Kong study, DeFond, Francis and Wong (2000) found evidence that non-specialist Big 6 have a 37% premium over the non-Big 6 and that the Big 6 industry specialists have a 29% premium over the Big 6 industry non-specialists. This study also found a “non-Big 6 specialization, which leads to production economies and the capture of market share through lower fees for clientele seeking low-priced audits.” In fact, they found audit fee discounts rather than premiums for a non-Big 6 specialist in one industry (property). This indicates the non-Big 6 could benefit from industry specialization as well. Their results also suggest that brand name reputation is essential in order to achieve higher priced audits that differentiate according to quality through industry specialization. These results are found to be consistent for both large and small clients. This study again supports the existence of a relationship between industry specialization and the audit fee premium but also leaves unresolved issues of whether this finding is unique, or occurs generally when there are non-Big 4 specialists.

Menon and Williams (2001) also used US data and found no evidence that auditors obtain any price premium for industry specialization. They expected two possible effects of industry specialization: 1) the auditor becomes the preferred choice and thus could charge a premium; and 2) the auditor can conduct audits more economically than competitors. They found audit fees increased in the 1980's but remained constant in the 1990's and the increase did not result from industry specialization.

Ferguson and Stokes (2002) used Australian data and used the auditor “Industry Leader” to proxy for industry specialization during the two time periods when there were Big 6 firms and Big 5 firms. They found a positive relationship between the auditor industry leader proxy for industry specialization and audit fees for large clients in the time when the major firms were made up of the Big 6, which was 1990 to 1992. However, no consistent association is found between audit fees and the market share proxy for industry specialization in the time when there were Big 5 firms, which was 1994 to 1998.

In a later Australian study conducted by Ferguson et al. (2003) in the time of the Big 5, an average fee premium of 24% was found to be associated with industry expertise when the audit firm is both the “City-specific leader” and is one of the top two firms

in the industry nationally. Their study examined the audit firms under the categories of country-level specific and city-level specific industry leader. Firstly, in terms of country-level specific industry leader, the firm-wide perspective has been adopted because this can observe the national market share, which can be used as a determining basis for the Big 5 industry specialization; they regard no differentiation between the different branches across the country and they examine the related data in a collective manner. Secondly, city-level industry leader refers to the branches within the same city of the country and they analysed the data for each city individually. From these industry rankings that they established, they found evidence supporting industry specialization for the city-level but not the country-level. They specifically found that being one of the top two firms in the country does not render an audit fee premium without also being a city-specific industry leader. They found further evidence showing that in most industries, audit firms will become a country-level industry leader if their firm is a city-level industry leader.

Furthermore, they also suggested that “office-level” and “city-specific level” leadership are the basis for both the market perception and pricing of industry specialists. This is referring to the fact that the city-specific level is the appropriate foundation for industry specialists pricing. Most importantly, their results show “the industry expertise that is priced by the audit market is city-specific and a function of local-office industry leadership.” (Ferguson et al., 2003) This again shows the relationship between the rankings and their importance in the pricing of industry specialists. Therefore, it is important to examine these two perspectives because this can help with understanding the Big 5’s firm operations further and enable the determination of industry specialists pricing.

Based on Ferguson et al. (2003), the same researchers further examined the relationship between industry specialization and audit pricing by adding a new overall market leadership variable. They want to investigate whether prior results could be confused by the city-specific overall market leadership effects (Ferguson et al., 2006). They found that local and national auditor industry expertises are both of value to the auditees, which supports the results in their 2003’s study. Also, they found some evidence that the overall market leadership is a factor that could impact on the level of

audit fees on its own as they found higher fees resulted due to being an overall market leader.

Mayhew and Wilkins (2003) used data from the US to look at industry specialization of audit firms as a differentiation strategy in Porter's context, which is to differentiate their product or service in terms of quality attributes from their competitors in order to attract customers. They found that as market share increases without differentiation, audit fees charged for a given IPO decreases. This is indicating that clients could bargain for a portion of the audit firm cost savings due to the fact that the audit firm has not been able to differentiate from competitors successfully. They also found evidence that audit firms with larger market shares and differentiation earn fee premiums.

Furthermore, Carson and Fargher (2003) in Australia found a fee premium attributed to the industry specialists in Australia is mainly paid by the largest clients of that particular industry, indicating that the relationship between the audit fee premium and industry specialization may not apply to all kinds of firms.

Casterella et al. (2004) in a recent US study, attempted to link Porter's (1985) analysis of corporate strategy to industry specialization when examining the Big 6 audit pricing. They defined industry specialization as a differentiation strategy that would provide a competitive advantage to specialist auditors over non-specialist auditors. Their sample is divided into two parts with the first half consisting of companies with assets greater than \$123m and the second half consisting of companies with assets less than \$123m. They found that the smaller half of the sample did not pay a specialist premium and these results indicate when clients are small and have low bargaining power, audit fees are higher than when clients have greater bargaining power.

Auditors with industry expertise are viewed to provide better quality audits because they have better knowledge of the industry and could also audit more efficiently through specialization to develop economies of scales (Eichenseher and Danos, 1981, 1986). Audit firms specialize because they want to differentiate themselves from competitors as competition level increases. A major potential disadvantage of

industry specialization found is the increased risk exposure due to the lack of diversified clients. Audit firms that specialize could be too narrowly focused on particular clients; if they suddenly lose market share in that industry, their firm could go under due to the lack of other clients to support their profit making (Casterella et al., 2004).

Some contemporary studies examined industry specialization in relation to factors other than audit fees. These are also interesting to review because these may provide inspirations to researchers about industry specialization and other related issues. For example, Kwon, Lim and Tan (2007) examined the role of audit specialization in relation to the legal systems and earnings quality for 23 countries for a nine-year period. They found that countries where their legal environment is weaker, the more benefits clients will gain from engaging with audit specialists and vice versa.

A Belgian study by Meuwissen et al. (2005) investigated the effects that audit partner and industry specialization have on audit quality. They found evidence that audit partner industry specialization does not increase audit quality and that they predominantly found “the interactive effect of industry-specific experience and client pressure on audit quality is negative” (Meuwissen et al., 2005). This shows audit conflict situations are likely to arise due to the desire of investment protection by industry specialists. This is another insight obtained from industry specialization yet it does not relate to the level of audit fees.

Francis et al. (2005) is a recent US study, which used the new US fee disclosures to examine whether there is a relationship between audit fees and industry expertise by adopting the joint national and city framework developed by Ferguson et al. (2003). The ranking method is used in this study for defining industry specialists, where there is no predetermined market share benchmark that a specialist must meet. Instead, an audit firm is defined as a specialist if it has the largest market share in the industry, regardless of the amount. Results indicate that there is a 19% audit fee premium when the audit firm is both national industry leaders and city-specific industry leaders, which is consistent with prior studies. However, there is no evidence of any fee premium if the audit firm is solely a national industry leader. Being a leader at the national level is found to be insufficient to warrant any audit fee premiums. This

study shows auditees do not merely consider industry expertise at a local-office level. It is important for audit firms to have good reputation in the city, which their clients are located. In fact, auditees also consider the reputation of the audit firm throughout the country and in that case, they are willing to pay higher audit fees if the audit firm has good reputation both in the city and in the country.

Furthermore, Basioudis and Francis (2007) is another recent study conducted in the UK. They found significant evidence of a 15% fee premium for audit firms that are city-specific industry leaders, which is inconsistent with some prior US and Australian studies (for example, Ferguson et al. (2003) and Francis et al. (2005)). They also found that the Big 4, which are also city-specific industry leaders have a 38% premium over third-tier audit firms and an 18% premium over second-tier audit firms. However, if the Big 4 is not a city-specific industry leader, a much smaller premium of 19% was found for the third-tier audit firms only. This study again indicates different research settings may lead to different results for audit pricing and the value of specialization so it is necessary to further examine these related issues in more countries.

In summary, the results from the reviewed literature in this part are not consistent. Some were able to find a specialist premium, while others were not. Some studies have inconsistent results within the same study, for example, Craswell et al. 1995. The studies reviewed above were able to find evidence of a premium associated with industry specialization. These are: Craswell et al. (1995), Cullinan (1998), DeFond et al. (2000), Ferguson and Stokes (2002), Ferguson et al. (2003), Mayhew and Wilkins (2003), Francis et al. (2005), and Basioudis and Francis (2007). The main differences in these studies include: 1) the sample size, 2) the research setting, 3) the time period examined, and 4) the factors that industry specialization relates to. These are discussed below.

Firstly, it was shown in the studies that sample sizes ranged from 249 to 4292 observations, which indicates a large range. Therefore, this could imply some studies might be more reliable than others due to their larger sample size. The larger the sample, the more generalizable the results should be. However, there are no apparent

patterns that studies with larger samples found more evidence of the existence of premiums.

Secondly, eight of the studies used the US data, five studies used Australian data, one used UK data and one study used Hong Kong data, implying that research should be carried out in more countries in order to obtain more generalizable results. Studies conducted in the same research setting are unlikely to draw conclusions that are applicable in other countries/settings and as time goes by, results can become outdated because the economy and audit environment change over time. Therefore, contemporary research in the same and different settings is required in the research area. More work should be conducted in other countries to see how results differ and what general conclusions can be made in the research area. This study which is aiming to use Hong Kong and China data should be able to explore some new insights of this research area because there is definitely a lack of Asian studies in this area and it should also be able to provide some contemporary findings.

As briefly mentioned above, outdated research can be a problem to the research area. The date of the data used in most of the previous studies reveals a more updated study is necessary. Most data used were mainly from 1980's and 1990's. These studies may be relevant in earlier years but now, data from the 2000's is essential in order to obtain more timely and relevant results. This is due to the many recent changes of the global economy, for example, a large country like China is becoming more active in the global economy and is influential to many places around the world. Hong Kong would obviously have the most impact because it has become a part of China since 1997 and many companies in Hong Kong then have operations involving China. Also, Chinese companies may now be listed in Hong Kong, which are known as the "H shares" and they are certainly influential to the Hong Kong stock market. Therefore, using more recent data can take into account of these recent changes and better reflect the situation in contemporary terms. This Hong Kong study is necessary because Hong Kong is one of those places that have changed tremendously over the last decade and is constantly experiencing economic changes. Results generated from Hong Kong data are very useful because Hong Kong has always been an important international finance centre and its Hang Seng index plays a significant role in the global stock market.

There have been a number of recent studies, which examined industry specialization but more should be conducted to support these contemporary findings because it is more useful to obtain results that are applicable in today's world and the examination of other types of auditors' specialization is also worthwhile because people will better understand that audit firms are not identical in terms of service, they can be differentiated by specializing in different areas, for example, industry and regional city specialization, which is the main purpose of conducting this study.

Different studies seemed to have related industry specialization to different factors, for example, O'Keefe et al. (1994) examined industry specialization in relation to GAAS compliance; Craswell et al. (1995) related industry specialization with product differentiation; Cullinan (1998) examined whether smaller audit firms could charge a premium by specializing in a niche market; Mayhew and Wilkins (2003) used Porter's (1985) theory of competition and differentiation to explain the relationship between industry specialization and audit fees.

2.5.1 Contemporary Audit Research Studies in Hong Kong and China

Before looking specifically at Hong Kong industry specialization studies, it is also essential to review some of the contemporary audit research studies in Hong Kong and China so that we can better understand the research culture of this setting. A Chinese study by Chow, Ho and Mo (2006) investigated the Chinese audit firms' ability to ensure high quality financial reporting. They investigated factors which were considered by prior studies as well as factors that are unique to the Chinese setting. These include: the importance of interpersonal relationships and the origins of most listed companies in China as state-owned enterprises. They surveyed 102 auditors from the senior rank or above in their audit firms in China who worked for three types of audit firms in China: 1) Big 4, 2) Top 10 local firms, and 3) a random sample of 10 medium-sized local firms. They found that the three types of firms have different clienteles and different audit structures. As expected, the Big 4 had the most detailed audit structure while the others were implementing a lower degree structure audit procedure. However, they found that they considered similar factors in terms of having the largest impact on risk assessment and the strictness of accounting/reporting

standards. They found that “management integrity, management’s unusual pressures, atypical circumstances and factors affecting the client’s industry, and the client’s assets being susceptible to loss or misappropriation” (Chow, Ho and Mo, 2005) are the main factors that impact on risk assessment.

Whether the clients are susceptible to asset loss or misappropriation, whether the client’s financial statements are susceptible to be misstated, and whether the client is an IPO or a company that has existed for some years are factors found to have the greatest impact on the strictness of accounting/reporting standards to which they hold clients in China. We can see from this study that there are obvious flaws and limitations in the Chinese audit environment and improvement must be made in order for China to turn into an international business friendly country. This would increase the motivation of this study because by doing more audit research to understand the Chinese audit environment better, we can highlight the areas that China needs to focus on to improve their auditing.

Another recent Chinese study is by Wang, Wong and Xia (2008). This study examined the factors that distort the incentives of state-owned enterprises (SOEs) in hiring auditors. They found that SOEs are more likely to employ small local firms for the ease of collusion under a high government involved economy. However, places “where government is less involved, with the economy, and the credit market and legal environment are more developed” (Wang, Wong and Xia, 2008), they found evidence that SOEs would hire high quality auditors, for example, the Big 4. This study suggests that the business environment in China has many potential collusion and corruption problems. SOEs would select audit firms based on the easiness to collude, rather than the quality of the auditors, which could in turn be a factor that allows smaller firms to charge higher because they can do whatever the SOEs want. This is a serious problem and that is why this study should further investigate why audit fees are charged differently in Hong Kong SAR China.

Li, Song and Wong (2005) conducted a study that investigates the relationship between audit firm size and audit quality for publicly listed firms, which is a very competitive audit market in China. They found that modified opinions are more likely to be issued by larger audit firms than smaller audit firms, indicating a

possibility that larger audit firms would undertake more detailed audit procedures and are able to find errors and problems in their clients' financial statements more frequently. They also found evidence that higher audit fees are charged by the larger firms. Both findings suggested that a positive relationship between audit firm size and quality exists and the relationship shows audit firms of different size will affect audit quality regardless of how competitive the audit market is.

A more recent Chinese study by Lin et al. (2009) examined industry specialization by second tier auditors, which is similar to what this study is examining. However, Hong Kong was not taken into consideration in their study. They found evidence of Big 4 premiums for brand name and industry specialization in the statutory and supplementary market in China. Results showed that additional premiums are earned by the Big 4 industry specialists as opposed to non-industry specialists in the statutory market. There was no evidence of fee premiums charged by the second tier auditors and the authors explained this with the idea that the second tier auditors may have benefited from economies of scale due to audit efficiency from industry experience developed and thus, being able to reduce audit fees charged. It was considered to be their strategy of attracting future low-priced audit seeking clients.

Overall, it can be observed that more auditing research studies are being conducted using the Hong Kong/China setting because interesting findings have been obtained as shown in the three studies mentioned above. However, there are many other opportunities for research using the Hong Kong/China setting, which again put this study forward to be conducted because the relationship between industry specialization and the audit fee premium has been less covered by Asian studies and it should be further examined to see whether evidence can be obtained to close some gaps of previous findings. In addition, regional specialization is another issue that can be investigated because many Hong Kong companies have their operations involved in China after the takeover in 1997. It would be interesting to examine whether audit firms do specialize in providing services for these China-involved companies and whether an audit fee premium or discount is charged. This is an original research issue that has not been covered in prior studies.

2.5.2 Notable Hong Kong Industry Specialization Studies

To be more focused on this study's research purpose, it is important to review some recent industry specialization studies conducted using the Hong Kong data that provide relevant insights to this study. Firstly, subsequent to the DeFond et al. (2000) study referred above, Firth and Lau (2004) examined the existence of an audit fee premium using a pre-merger and post-merger approach. They analyzed the merger between Kwan Wong Tan & Fong (KWTF) and Deloitte Touche & Tohmatsu (DTT) to become DTT in 1997 and also the merger between Coopers & Lybrand (CL) and Price Waterhouse (PW) to become PricewaterhouseCoopers (PWC) in 1998. They found evidence that the audit fees of former DTT clients who stayed with the merged firm are 55% higher than KWTF before the merger but the premium decreased to 41% in 1998 and to 34% in 1999. They also found that KWTF was the leading supplier (industry specialist) for incumbent property companies but no premium was found associated with that industry specialization. In fact, a discount was found, indicating the possibility that second-tier firms that possess industry specialization may charge lower audit fees due to audit efficiency. Moreover, the audit fees of PW were 16.4% higher than the audit fees of CL before the merger. The fee premium is even greater for the clients in the industry of consolidated enterprises and property, which is one of the industries they specialize in. However, they found no indication of higher audit fees after their merger to become PWC, meaning that clients are "unwilling to pay higher fees for within-Big 5 re-branding". They are saying this because they do not see the former CL clients paying higher fees after CL has merged with PW, which was a larger firm that charged higher fees in comparison. The reason why the merger took place was because of increased competition in the audit market (Firth and Lau, 2004).

The second study that I find relevant is a study conducted by Lai (2005). Again, the Hong Kong data was used. The study examined a new issue, which is the economies of scale effect on audit pricing of a specialist auditor merging with a non-specialist auditor. He again used the merger of DTT with KWTF in Hong Kong and found that the non-specialist cannot bring in any additional specialization that could be significant enough to charge a fee premium. He found significant results that on average, a 15% premium is earned by DTT when it is an industry specialist for both old and new clients. He also tested new and old clients separately because he believed

many auditors low-ball to attract new clients but a similar premium of 14.77% ($p < 0.091$) is found for old clients, concluding low-balling is not a major concern. He stated that “DTT only earns a fee premium before the merger and all clients do not pay a fee premium after the merger.” (Lai, 2005) That is, results indicate clients are willing to pay a fee premium to DTT before merging with KWTF but all clients are not willing to pay a premium after the merger. Lai’s main argument is that the economies of scale effect can explain and counteract the industry specialization premium. Whether this is true or not will be further investigated in this study. This study will need to show whether industry specialization is sufficient to cause a fee premium and this is why these foundation studies are essential to review.

Apart from the studies that are discussed above, there are not many research studies that examined the relationship between industry specialization and the audit fee premium even though we can see more researchers have identified the opportunity of using the Hong Kong/China setting. Hence, a further objective and motivation of this study is to examine an auditing issue using the Hong Kong SAR setting that is under exploration and less examined by prior studies.

These different approaches led to different results and findings but most of these studies have a similar intention of investigating the relationship between industry specialization and audit fees (though some did not), which is also consistent with this study. In addition, this study will investigate regional specialization in Hong Kong SAR because it should also be value adding to this research area as it is of value to auditors, auditees and financial report users.

The main research questions of this study is whether industry and regional city specialization exist in Hong Kong SAR, China and whether an audit fee premium or discount is charged by the Big 4 and the non-Big 4 (the top 10 CPA firms in Hong Kong) as a result of the specialization. Also, whether the combined specialization (i.e. regional city-industry specialization) lead to greater effects on audit fees. Industry and regional city specialization will be defined using alternative definitions that distinguish specialists from non-specialists. These definitions will be further explained in the hypotheses development section.

3.0 Theoretical Framework & Hypotheses Development

3.1 Research Purpose

The literature review in the previous chapter shows what is currently recognized in the research area of industry specialization and audit fee premiums. This chapter now highlights the aspects and ideas missing from our current knowledge and how this study can add to our knowledge. In this chapter, the main reasons that motivate this research study are discussed and a full explanation and definition of the research questions developed are provided. The main motivation will be the conflicting results from prior studies, where some studies are able to find industry specialization premiums while others cannot. In addition, this study is also motivated by the value of regional city specialization because it affects auditors, auditees and financial report users. Using data from Hong Kong SAR, which is a research setting that has been less covered and has an audit environment where more second-tier firms are involved, could possibly generate new insights. In particular, this study will examine industry specialization in three areas: 1) Industry specialization in Hong Kong companies only, 2) Industry specialization in Hong Kong listed companies that have 20% or more assets held in China, and 3) Overall industry specialization in Hong Kong SAR. This will more clearly establish the circumstances where industry specialist premiums/discounts exist.

The literature reviewed in chapter 2 has clearly established that industry specialization exists in some countries (mostly in Australian and US studies) mainly for the large audit firms; various definitions of industry specialists applied affect the results generated; and audit fee premiums sometimes arise due to specialization. However, the question remains whether other less researched countries (like Asian countries) and countries with different audit environments also have industry specialization for the Big 4 as well as the non-Big 4. Also, can audit fee discounts rather than premiums be charged due to the specialization? What other specialization issues can be examined apart from industry specialization? – Is regional city specialization applicable? What about combining industry and regional city specialization together (i.e. similar to Ferguson et al. (2006)'s city-industry specialization study)? Regional

city specialization seems suitable for this study because regional city specialists are of value to auditors, auditees and financial report users as discussed in the previous section. These lead to the main research question of this study – *Whether there is an association between industry specialization, regional city specialization, regional city-industry specialization and the audit fee premium/discount in Hong Kong SAR, China for Big 4 and Non-Big 4 audit firms respectively.*

The advantage of this study is to further investigate the relationship between the level of audit fees and industry specialization, where contemporary evidence is essential to support or reject prior findings. Besides, this study also examines a new idea, which is regional city specialization, as well as the combined specialization (which has been previously examined but not yet explored in Asian countries) to see whether firms that are both industry and/or regional city specialists warrant an audit fee premium or discount. Audit fee premiums and discounts are both important in this study because it is common to find results indicating the existence or non-existence of audit fee premiums but discounts also seem likely to occur in some circumstances, but these circumstances are not usually examined. It is also important to examine audit fee discounts because specialization could lead to both efficiency and expertise. It is the efficiency of specialists that leads to discounts while the expertise causes premiums. Hence, it is worthwhile to examine the relationship of auditors' specialization and both fee premiums and discounts because it is useful to see whether audit firms of different size charge more or less audit fees when they are specialists in various aspects. People would want to know the reasons for audit firms to charge higher or lower audit fees. Hence, the Big 4 and the non-Big 4 premium/discount are examined. This allows the study to examine multiple ideas and aspects in a combined new structure and it will be interesting to see the results generated.

In general, Francis (1984), Palmrose (1986), and Craswell et al. (1995) all found a Big 6 premium which could be attributed to the possibility that these firms provide higher quality assurance services, which further support the theory that product differentiation is more likely to be the reason in explaining the pricing differences between different audit firms.

After briefly reviewing some prior audit pricing studies, we can see that the audit fee premium for Big firms has become a controversial and motivating research topic because of the various arguments as mentioned above and the areas where further research is still needed. Most researchers do not believe that brand name reputation, product differentiation and monopoly pricing are the only factors causing an audit fee premium. Hence, researchers began to consider other possible factors that could also contribute to the audit fee premium and this is certainly one of the reasons why this study is to be conducted.

Industry specialization became one of the major additional possible factors that researchers consider would affect the level of audit fees. For example, O'Keefe, King and Gaver (1994) examined the relationship between GAAS violations and audit fees. They found that industry specialization is associated with fewer GAAS violations and that the audit fees increase as the GAAS violations decrease. However, some early studies that directly investigated the relationship between industry specialization and audit fees; for example, Palmrose (1986) and Craswell et al. (1995). Later studies and findings were reviewed in the previous section of this paper.

Some studies were able to detect industry specialization premiums while others cannot. Therefore, it is important to further investigate whether industry specialization is related to audit fee premiums. In addition, other original factors can also be considered in order to open up this research area. It is important to examine different factors that could possibly affect audit pricing and regional specialization. For this study, Hong Kong data is used and it is known that Hong Kong SAR was taken over by China in 1997 and since then, many Hong Kong businesses have explored new opportunities in China and began to operate between the two areas. Later, when China became part of the WTO, financial information needed to be publicly disclosed and this certainly increased their need of auditors for the large companies. Hence, it is very interesting to see whether audit firms that serve the Hong Kong companies involving China operations in different regional cities charge differently due to what is defined as "Regional City Specialization" in this study. The study uses the relationship between industry/regional city specialization and the level of audit fees by using an original set of data as a foundation for further developing the existing research. This study will re-examine industry specialization and it will also

explore into regional city specialization. A review of the Hong Kong and China audit market background and a discussion of some of their contemporary audit research studies are presented below, followed by the detailed reasons for undertaking this study.

3.2 The Background of the Hong Kong and China Audit Market

Hong Kong SAR, China data will be used in this study because Hong Kong's audit market is well-established and the Big 4 have a dominant position in the market yet smaller CPA firms also play a significant role in Hong Kong (DeFond et al., 2000), which makes this study worthwhile. The audit market in China is not as developed as other countries because public financial reporting was not much of a concern before it became more active in the global economy to strive for foreign investment and do business with other countries. China did not harmonize with the international accounting standards and its legal system was quite different from elsewhere. However, due to many global economic changes and many countries doing business with China, it has to be compatible with the rest of the world. China is now required to put more focus on auditing as it is required by other countries. Companies in China now need to report their financial status publicly in order to attract overseas investment. Therefore, they need to ensure external parties trust the reported financial information and this is best proven by a good unqualified audit report. After sovereignty was transferred back to China (1997), Hong Kong companies have increased their involvement in many business activities and developments in mainland China. Professional services are no exception. Apart from Hong Kong, investors from other countries around the world have also considered China as a large prospect since China's WTO accession. An increased level of cross-country mergers and acquisition activities took place, which led to a demand of high quality and multinational accounting services to support the significance of China in the international market. This large opportunity was recognized by the Big 4 which audit 80% of the listed companies in the international capital market. It was in the 1990's when the Big 5 entered the China market by launching cooperative joint ventures and they successfully secured 20% of the market share (China.com, 2006). Due to the Big 4's experience and competitive skills, they have expanded their market shares in

China rapidly since China's WTO accession, which makes the Hong Kong and China market an interesting setting for conducting research because these are places that have an increased influence to the international business world.

Most of the Big 4 China operations have been localized and each of the Big 4 would have about 1000 staff in China. According to statistics released in China, large international firms audit most of the large clients, which want to raise funds in the mainland capital market. Most of the new listings on the main board of the Shenzhen and Shanghai exchanges are audited by the top ten international accounting firms. Each of the Big 4 has branches set up in China containing staffs that have Hong Kong background, as well as local accountants (Hong Kong Accounting Profession Breaking into YRD Market, 2004).

There has been an apparent trend that audit firms are gaining greater bargaining power and charging higher fees to their clients since the 1997 Asian financial crisis (Lee, 2005). The Big 4 attempted to charge higher fees to the China-involved companies because of the presumed higher risk of corporate scandals but these companies preferred switching to cheaper auditors instead. The profession also says that the new accounting rules (for example, fair values are required rather than historical cost for financial reporting) and China IPOs (one large China IPO requires over 100 accountants) have put much more work load onto the audit firm staff. A senior auditor from a Big 4 firm said: "If audit fees don't go up, no one would like to take up the additional workload" (Lee, 2005). Because of the increased work loads, the Big 4 are aiming to focus on the large listed companies and foregoing smaller clients because they merely have sufficient resources to satisfy larger clients. Hence, more than 100 listed companies switched from a Big 4 to a second-tier audit firm since 2004. A list of listed companies that changed auditors since 2004 is shown in Appendix F. However, it is interesting to investigate whether these switches were due to audit discounts being offered by second-tier firms or is it because these audit firms can provide better specialized audits for the smaller clients (i.e. industry/regional city specialization).

There are 1,096, 1,098 and 1,149 companies in 2004, 2005 and 2006 respectively that are listed on the Hong Kong stock exchange and all of these companies require audit

services. The Hong Kong Stock Exchange is divided into the Main Board and the GEM (Growth Enterprise Market). There are 204, 205 and 198 of the total listed companies are listed on the GEM in 2004, 2005 and 2006 respectively and the rest are listed on the Main Board. The primary difference between the two types of listed companies is the listing requirements that they need to comply with. New applicants on GEM are not required to meet any profit or financial standards requirements; they are only subject to requirements of operating history and management. Those listed on the Main Board need to pass the requirements for profit, market capital, revenue and cash flow. Out of all the companies listed on the HK Stock Exchange, there are 141 (96 on the Main board and 45 on GEM) Chinese companies which have met the requirements to become a listed company in HK. These are classified as the “H shares”. Over 60% of HK listed companies (including H shares and non-H shares) have operations involving China (www.hkex.com.hk) and it will be important for them to select audit firms which have the relevant expertise to serve their needs.. These listed companies usually engage with the Big 4 or the second-tier audit firms because smaller local firms are generally incapable of handling such large clients. There are twenty-five second-tier audit firms in Hong Kong with greater than fifty employees and these will be examined in this study categorized as the non-Big 4 (www.cpasource.org). A list of these second-tier audit firms is listed in appendix C.

3.3 Research Reasons

3.3.1 Reason 1: To Test Alternative Definitions of Industry Specialization

Firstly, the definition of industry specialization has been quite inconsistent across different studies. For example, Craswell et al. (1995) generated results that are sensitive to the definition they used. They compared the results from using the 10% market share rule with the 20% market share rule and found fewer specialists resulted when the larger market share rule was used but that significant specialist premiums only existed when the smaller 10% rule was used.

The most common method used for defining industry specialists in prior studies is the relative market share that the audit firm has in each industry. However, in different

research settings, the industry classification system used is different. For example, Australia and New Zealand can both use the Australian and New Zealand Standard Industrial Classification system (ANZSIC) but New Zealand itself has its own set of industry classification codes for the New Zealand listed companies by the NZ Stock Exchange (NZX). Canada, Mexico, and US use the North American Industry Classification System (NAICS), which is a replacement of the earlier system called the Standard Industrial Classification (SIC). The SIC is a much simpler classification system that classifies industries under fewer categories. Craswell et al. (2003) used the ASX classification system, which applies to listed companies in Australia. Although ASX is objectively determined in advance and it is widely recognized, it still has limitations for various research reasons, for example, datasets that include unlisted companies. Thus, it is important to select the appropriate industry classification system for the Hong Kong SAR data used in this study to suit its genuine nature.

The various available classification systems further confound the uniformity of the definition because different systems classify industries differently. Some systems classify companies according to broader levels while some classify according to narrower levels so it is difficult to confirm whether industry specialization results will remain consistent when a different classification system is used. It is very intricate to establish a standardized definition that can apply in all research settings; this maybe why conflicting results continue to appear in previous studies. Under country-wide restrictions, certain classification systems must be used when undertaking different studies using various datasets.

In this study, the Hong Kong Standard Industrial Classification (HSIC) will be used as the primary industry classification system because it is a coding system designed specifically for Hong Kong SAR companies. Other systems would be less suitable because other systems have a different country of origin that is not specifically designed for Hong Kong SAR companies as mentioned above. However, the NAICS is also used as a secondary industry classification system in the study since it is used by the Hong Kong stock exchange and companies in Hong Kong are aware of this system. Hence, this will allow the study to examine whether results are prone to the different industry classifications applied when defining specialists.

Different benchmarks and systems applied could generate different results; hence, performing tests using different benchmarks and systems would be of value to the research. Different industry classification systems would also be interesting to study whether different findings will result if companies in the data are classified differently. The HSIC is the primary classification system applied in this study but the NAICS will also be used to allow for comparison and see if any significant differences exist. The SIC will not be used because it has been replaced by the NAICS and not many databases apply the SIC nowadays. These will be further discussed in the research design section.

Also, how each variable is measured could differ across studies; therefore, it is important to define the variables accurately to generate the best results. For example, different studies use different benchmarks or systems for defining industry specialists. For instance, earlier industry specialization studies like Craswell et al. (1995) used a 20% benchmark (the proportion to total audit fees) of market share and a minimum of 30 companies in an industry to define industry specialists. Hogan and Jeter (1999) used the auditor concentration ratio, which measures overall concentration regardless of which audit firms dominate. However, Francis et al. (2005), Ferguson et al. (2003) and Basioudis and Francis (2007) have used the method of ranking auditors to define industry specialists to prevent the inappropriate setting of arbitrary benchmarks because it is not possible to confirm whether a certain selected percentage is suitable for defining a specialist and that percentage may also vary across different industries due to industry-specific characteristics. Hence, in these studies, they simply define the market leader as the specialist regardless of the percentage of market share it held in the industry. The firm with the largest market share is defined as the specialist and sometimes the audit firms with the second and third highest market share are also included in the definition.

Due to the classification restrictions, the definition standardization problem can best be examined by experimenting with different methods of defining industry specialists and even the other two types of specialists examined in this study (regional city and regional city-industry specialists). In this study, both the ranking method and the market share benchmark method (including the proportion to audit fees and the

number of auditees audited) are used to see whether results are sensitive to alternative approaches. These will be discussed in details in the research design section of the paper.

3.3.2 Reason 2: To Explore Further Evidence Using Wider Research Settings

The second reason for conducting this study is the fact that prior industry specialization studies have mainly used data from the US (for example, Hogan and Jeter (1999), Menon and Williams (2001), and O'Reilly and Reisch (2002)) and Australia (for example, Craswell et al. (1995), Ferguson and Stokes (2002)). Therefore, it would be worthwhile and interesting to examine whether results from these studies could be generalized in other countries that have not been studied to a great extent. Since the relationship between industry specialization and audit fees is still a controversial research topic, it is necessary to apply other data to find further or new evidence to support or confound previous findings. It would also be a main objective to generate new insights in this research area. Asian countries are very good research settings for researching further in industry specialization and audit fees because they have different cultures and they have been less researched. Hong Kong SAR has been chosen as the research setting for this study because it is a well known Asian international finance centre, which is worthwhile to study. Although there have been some previous Hong Kong studies like DeFond et al. (2000) on industry specialization, it is still likely that new findings and insights could be generated from this study because the data used is more updated and the approach applied is different. In addition, other types of auditors' specialization are also examined.

From this setting, we can re-examine the following: whether audit fee premiums/discounts are caused by industry specialization, and whether there is a difference between Big 4 and non-Big 4 industry specialization. Additionally, new ideas can be explored, which are discussed below.

3.3.3 Reason 3: To Examine Big 4 vs. Non-Big 4 Industry Specialization

Previous studies have mainly examined industry specialization in relation to the Big 4 (e.g. Ferguson et al., 2003) but it is also crucial to investigate whether other audit firms can be specialists as well. This study is designed to use the Hong Kong SAR audit environment to observe whether an audit fee premium or discount is charged if the non-Big 4 audit firms possess industry specialization or other kinds of auditor specializations. The top ten national firms other than the Big 4 will be observed in order to ascertain some new findings about audit firms of different sizes.

Furthermore, this research can also examine the effectiveness of the audit fee model used in prior studies. This allows better understanding of the relationship between industry specialization and the level of audit fees because from the model, we could see which variables affect the level of audit fees and explore additional variables that could be included to make the model as specified as possible.

3.3.4 Reason 4: To Investigate Regional City and Regional City-Industry Specialization in relation to Audit Fees

Regional city specialization is considered as a unique aspect in this research area and it is particularly relevant in this research setting because Hong Kong and China are closely connected yet they function separately. This study will use the information about whether the sampled companies have operations involved in China. The involvement will define an additional variable in the model to examine whether certain audit firms are preferred by these China involved companies. If so, these audit firms can be considered as regional city specialists.

It is worthwhile to examine this issue because we would want to explore other factors that give rise to audit fee premiums or discounts in the Hong Kong SAR, China audit market. Regional city specialization in China is worthwhile to investigate because it is of value to financial report users as well as auditees and auditors. Firstly, the Chinese are very concerned about a cultural belief called “Tian shi, Di li, Ren he”, which means the right time, right place and the right people. By definition, “Tian shi” means the timeliness of an event, “Di li” denotes to the geographic favourable position and “Ren he” represents the support of people. A news report about the IPO of Bank of China in Hong Kong mentioned that “Tian shi, Di li, Ren he” must be

present in order for the offering to be successful, otherwise, all related matters will not run smoothly (<http://hk.news.yahoo.com>, 2006). A member of the Hong Kong Legislative Council stated that the CEPA between Hong Kong and China is a foundation for China to accelerate its economy but without “Tian shi, Di Li, Ren he”, neither Hong Kong nor China would benefit (Li, 2004). Furthermore, Wong (1999) explained in the Hong Kong governmental news report that the reason why Hong Kong had the highest competitive advantage in the China business market is because it had “Tian shi, Di li, Ren he”, which made everything easy to dealt with in their business world. From these authoritative supports, we can see the importance of this cultural belief for both China and Hong Kong. This belief is valued and concerned under many situations and it is surely applicable in this study regarding the auditing issues being examined because these are all necessary factors for financial report users to consider when making relevant economic decisions. Hence, this reinforces the importance of examining regional city specialization because this is the underlying concept of this issue. Based on these factors, report users in China will perceive the reports to be more reliable when they know the auditors well. This is “Ren he”. Especially when they know the auditors speak the same language and have knowledge about the Chinese law and accounting system and may have offices and other facilities located in China, their hometown, which is “Di li” because it is understandable that they have more trust in auditors located in and familiar with their hometown. This can build the confidence in the financial report users because they know the auditors are not just foreigners, they can communicate with these people whenever they feel appropriate in a timely manner, which is “Tian shi”.

This same issue will apply to financial report users in Hong Kong; knowing the auditors have facilities in a particular city in China as well as having other relevant expertise can provide assurance about the quality of audit because they know these auditors would have a better understanding of that part of China. It is more difficult for users of reports to believe that auditors without regional city expertise have the capability of fully understanding the environment and auditing accordingly. As for the auditees, they may be willing to pay more if they know auditors have the relevant expertise in conducting audits in that city. They will have more confidence with these auditors and if they believe that financial report users also value regional expertise, then that provides another incentive for auditees to pay higher fees.

For the auditors, the investigation of regional city specialization is also critical because they would want to receive as much audit fees as possible and they would need to find ways to do so. Hence, regional city specialization could be an area that they could focus more on if it warrants a fee premium.

When studies use the joint national-city framework developed by Ferguson et al. (2003), for example, Francis et al. (2005) and Basioudis and Francis (2007), it develops the relationship between audit fees and industry specialization further. It looks at whether the level of audit fees is affected if the audit firm has industry expertise in a particular city and/or overall in the country. This study investigates whether audit fees are affected by industry specialization, as well as regional city specialization. Regional city specialization in this study is somewhat different from the joint national-city framework used in prior studies because we are specifically looking at specialization in Hong Kong and China. Hong Kong and China are considered as two different places (like two different economies) although Hong Kong is in fact a special administrative region of China since 1997. Hong Kong still operates under its own governmental and legal regime that is separate from China and is viewed as an international finance centre. Regional city specialization does not take the industry factor of the client firm into account. Hence, a combined concept of the two specializations is developed. This is referred to as “regional city-industry specialization” in this study. This concept takes both the auditee’s China-involved city and industry of operation into account. However, it is different from the joint national-city framework developed by Ferguson et al. (2003) because I need to first of all identify the regional cities of the China-involved companies in my sample and then classify the auditees into the different industries before identifying an industry specialist of the identified regional cities. This is different because this study specifically looks at auditors being specialists in a city (regional city specialists), rather than being an industry specialist in a city. This is another innovative development of this study and is certainly worthwhile to investigate whether there are any independent or joint effects on audit fees when two kinds of auditor specializations are examined.

In summary, this study examines three kinds of auditor specialization independently and whether each of these is able to earn an audit fee premium or discount: 1) industry specialization (as in previous studies), 2) regional city specialization (whether auditors specialize in terms of location of the client) and 3) regional city-industry specialization (whether auditors specialize in an industry of a particular regional city that the Hong Kong listed companies are involved in). The large number of China cities involved is also something unique to this research setting because I am examining over ninety cities in China. In the Francis et al. (2005) study, 77 cities over the US were observed.

The reasons given above shows that it is interesting and worthwhile to examine whether clients are willing to pay more or less for auditors with regional city expertise because this is valued by the financial report users, auditees and auditors and it is very suitable to be examined in the Hong Kong setting. Also, to test for further effects of regional city specialization, it is also worthwhile to link the idea with industry specialization to see whether any joint effects result. This is the reason which leads to the development of regional city-industry specialization, which is another innovative idea of this study. This study is different from Francis et al (2005) because not the whole China market is examined (Francis et al. (2005) looked at the whole Australian market). This study looks at the China-involved listed companies in Hong Kong.

3.4 Research Questions

Based on the research purposes and reasons for conducting this study discussed above, the main research topic is established. There are five primary research questions in this study:

1. Whether industry specialization exists in Hong Kong SAR. – this will be examined in five areas: (a) Hong Kong companies only; (b) China-involved companies listed in Hong Kong, (c) Big 4 auditees; (d) Non-Big 4 auditees and (e) Overall industry specialization.
2. Whether regional city specialization exists in the China-involved companies within the Hong Kong SAR listed companies.

3. Whether the Big 4 possess an industry and/or regional city specialization premium/discount in Hong Kong SAR.
4. Whether the non-Big 4 possess an industry and/or regional city specialization premium/discount in Hong Kong SAR.
5. Whether there is an association between industry and regional city specialization and the impact industry and/or regional city specialization have on the level of audit fees. - That is, are there regional city-industry specialists? If so, do they associate with an audit fee premium or discount?

These five parts will be combined and form the research topic of this study – *To examine the association between industry specialization, regional city specialization, regional city-industry specialization and the audit fee premium/discount in Hong Kong SAR, China.*

3.5 Hypotheses Development

The hypotheses to be tested in this study are developed from the primary research questions identified above. These will be tested by the audit fee model discussed in the next section of the paper.

The hypotheses are stated in the alternative form:

H1: That the level of audit fees increases when an audit firm is an industry, regional city and/or regional city-industry specialist.

H2: That the level of audit fees increases when a Big 4 audit firm is an industry, regional city and/or regional city-industry specialist.

H3: That the level of audit fees decreases when a non-Big 4 audit firm is an industry, regional city and/or regional city-industry specialist.

4.0 Research Design

4.1 Background

As in many other developed countries, the Big 4 in Hong Kong occupy the majority of market share in auditing services but smaller firms are also employed by numerous large companies. For example, Horwath Hong Kong CPA Ltd. claimed themselves as being specialists in various industries including: financial services, manufacturing, distribution, retail, etc (www.horwath.com.hk).

One of the main purposes of this study is to examine whether industry specialization exists in Hong Kong SAR; therefore, it is relevant to review the extent, which different audit firms regard themselves as specialists. The areas that audit firms claim themselves to be specialists may or may not match the definition of this study. Hogan and Jeter (1999) examined the areas that audit firms regard themselves as specialists and they found that the Big 4 all claimed to be specialists in the healthcare sector. By comparing this information with the market share of the audit firms using the NAICS and HSIC systems, it is possible to distinguish whether there is evidence of audit firms possessing large market shares of industries in which they claim to specialize.

Examples of both large and small audit firms with industries that they claim to be specialists are reported in Table 4.1 below. These are obtained at the end of year 2006.

Table 4.1
Specializations According to Audit Firms

Audit Firm	Specialized Industries
PricewaterCoopers (www.pwchk.com/home/eng) - Hong Kong only	Automotive Banking & Capital Markets Education & Non-profit Organizations Energy, Utilities & Mining Engineering & Construction Entertainment & Media Financial Services Government/Public Services Healthcare Hospitality & Leisure Industrial Products Insurance Investment Management Pharmaceuticals Real Estate & Infrastructure Retail & Consumer Technology Telecommunications Transportation & Logistics
KPMG (www.kpmg.com.hk) - Hong Kong only	Consumer Markets - Consumer Products - Retail & Food Beverage
	Financial Services - Banking & Finance - Insurance - Securities & Investment Management
	Industrial Markets - Industrial Products - Energy & Natural Resources
	Information, Communications & Entertainment - Communications - Electronics - Software & IT Services - Media & Entertainment
	Property & Infrastructure - Property, Construction & Hotels - Public Sector - Infrastructure
	Private Equity - Fundraising

	- Investments & Deals
	- Realising Value
	- Portfolio Management
Deloitte	Energy & Resources
(www.deloitte.com/dtt/home/0,1044,sid%253D7052,00.html)	Financial Services
- China & HK only	- Banking
	- Insurance
	- Investment Management
	- Securities
	- Securitisation
	Technology Media & Telecommunications
Ernst & Young	Financial Services
(www.ey.com/global.content.nsf/China.E/Home)	- Banking
- China & HK only	- Capital Markets
	- Asset Management
	- Insurance
CCIF CPA Ltd.	China Regional Specialization
(www.ccifcpa.com.hk)	
- HK only	
Horwath Hong Kong CPA Ltd.	Financial Services
(www.horwath.com.hk)	Manufacturing
- HK only	Distribution
	Retail
	Hotels, Tourism & Leisure
	Professional Services
	Not-for-profit
	Healthcare
	Entertainment
	IT & Telecommunications
	Garment
	Legal Services
	Marketing
	Communications
	Import-export
	Recruitment
	Transport
	Publishing
	Service Companies
	Biopharmacy

From Table 4.1, we can observe that many of the industries are claimed by more than one of the Big 4 and even by the top second-tier firms that they specialize in (although the industry classification name is slightly different between firms). For example, the Big 4 all claimed to be specialists in the banking industry; the Big 4 and Horwath

specialize in the financial services industry; and PWC and KPMG specialize in the consumer markets industry. CCIF explicitly claimed itself to be a specialist in the China region, which is useful to this study to determine whether regional specialization exists because audit firms are aware of this type of specialization as well. Moreover, firms like PWC and Horwath stated many industries that they specialize in, which could make information users more concerned about the definition of industry specialists. Also, more audit firms begin to claim that they specialize in certain regional cities of China because they have staff and offices located in those regional cities (for example, Deloitte claims itself to be a specialist in Beijing, Dalian, Guangzhou, Nanjing, Shanghai, Shenzhen, Suzhou and Tianjin). Therefore, it is important for this study to better define industry and regional city specialization and to investigate whether these exist among the audit firms in Hong Kong SAR by applying various definitions. The existence of the different types of auditor specialization is discussed in the next chapter.

4.2 Data

The sample of this study consists of publicly listed companies listed on the Hong Kong Stock Exchange. For example, Ferguson and Stokes (2002) used 1,084 Australian publicly listed companies in their sample. The number of listed companies should be sufficient for this research study because most significant and even the less significant companies in Hong Kong are listed. These are the companies, which demand audit services; therefore, their information is relevant for conducting this research study.

My sample consists of a range of from 1,034 to 1,142 listed companies that are available for fiscal years 2004, 2005 and 2006, which generates a total of 3,275 firm years, to allow cross-section analyses over time, as well as independent results for each fiscal year. This is to ensure consistency and reliability of data since the use of a single year data could often be influenced by certain one-off market factors. Hence, the use of a three-year period allows examination of data consistency. These companies are selected because these are all the companies listed on the Hong Kong stock exchange and are publicly perceived to be most influential to Hong Kong's economy. In addition, all of these companies are required to have their financial reports audited and publicly reported, which is why they form a relevant sample for this study. A list of the companies included in the sample is shown in Appendix B. The annual reports of 2004, 2005 and 2006 are examined for each company and the Datastream database is the primary data source. However, most data cannot be collected from the available electronic databases, therefore, the Hong Kong Exchanges and Clearing Limited website, the general library of the University of Hong Kong and the central public library of Hong Kong are the secondary sources for collecting data manually.

For each company, the following information is collected:

- The total level of audit fees
- Total assets
- Number of subsidiaries

- Number of China subsidiaries
- Current assets
- Accounts Receivable
- Inventory
- Current liabilities
- Non-current liabilities
- Total debt
- Total equity
- Earnings before interest and tax
- Qualified, modified or unqualified audit opinion issued
- Percentage of foreign assets
- Whether 31st December was the balance date
- Whether a loss is experienced in one of the past 3 years
- Name of audit firm
- Whether the Big 4 is employed
- Whether one of the top 10 national firms is employed
- The company's extent of operations in China (ie. Percentage of assets held in China and its location within China)
- The industry of the company
- The NAICS code of the company
- The HSIC code of the company

Most of the information listed above can be obtained from annual reports but some personal judgement is required for classifying the industry using the HSIC because no database is available with the Hong Kong listed companies coded under the HSIC. Only the NAICS is coded for each listed company by the Hong Kong stock exchange.

The Hong Kong Standard Industrial Classification Version 1.1 (HSIC) and the North American Industry Classification System 2002 (NAICS) are selected because the HSIC is specifically designed for Hong Kong listed companies so it should be the most appropriate system. HSIC is modified from the United Nations' standards and was established in 1990 to serve as a standard

framework for the industrial classification of the economic units in Hong Kong. However, it would also be interesting to contrast the results of classifying my sample using another well-known classification system, which is the NAICS because it has replaced the U.S. Standard Industrial Classification (SIC) system and its aim is to reshape the way we view our changing economy. This system was developed jointly by the U.S., Canada, and Mexico to provide new comparability in statistics about business activity across North America. Hong Kong's economy is closely connected with the US's so their classification system should be reasonably applicable to the Hong Kong business environment. Therefore, it is worthwhile to examine whether different classification systems would lead to different results for industry specialists.

The broadest level of classification has been chosen for both systems because by going to the next level down makes the classification criteria too specific and widely spread for identifying industry specialists. The industries are classified according to the numeric codes for both systems:

1. Hong Kong Standard Industrial Classification Version 1.1 (HSIC)

- 1 *Agriculture and Fishing*
- 2 *Mining and Quarrying*
- 3 *Manufacturing*
- 4 *Electricity, Gas and Water*
- 5 *Construction*
- 6 *Wholesale, Retail and Import/Export Trades, Restaurants and Hotels*
- 7 *Transport, Storage and Communication*
- 8 *Financing, Insurance, Real Estate and Business Services*
- 9 *Community, Social and Personal Services*

2. North American Industry Classification System 2002 (NAICS)

11	<i>Agriculture, Forestry, Fishing and Hunting</i>
21	<i>Mining</i>
22	<i>Utilities</i>
23	<i>Construction</i>
31-33	<i>Manufacturing</i>
42	<i>Wholesale Trade</i>
44-45	<i>Retail Trade</i>
48-49	<i>Transportation and Warehousing</i>
51	<i>Information</i>
52	<i>Finance and Insurance</i>
53	<i>Real Estate and Rental and Leasing</i>
54	<i>Professional, Scientific, and Technical Services</i>
55	<i>Management of Companies and Enterprises</i>
56	<i>Administrative and Support and Waste Management and Redemption Services</i>
61	<i>Educational Services</i>
62	<i>Health Care and Social Assistance</i>
71	<i>Arts, Entertainment, and Recreation</i>
72	<i>Accommodation and Food Services</i>
81	<i>Other Services (except Public Administration)</i>
92	<i>Public Administration</i>

4.3 Model Specification

To estimate the effects of industry and regional specialization on the level of audit fees, a cross-sectional regression model of audit fees is used. This model is further modified from the ones used in prior industry specialization studies (Francis 1984; Francis and Stokes 1986; Craswell et al. 1995; Ferguson and Stokes 2002; Ferguson et al. 2003; Ferguson et al. 2006). This model particularly aims to expand the model used in Ferguson et al. (2003) and (2006)

because it is the most recent modified model used in this research area. The model used in this study includes a number of new variables that have not been included in their model; these include: *CHINA*, *HKTOP10*, *SECOND-TIER* and the test variables of regional city and regional-industry city specialization. These variables allow testing of whether audit fees are affected by whether the auditee is China-involved and/or audited by one of the Hong Kong top 10 non-Big 4 audit firms and/or audited by other second-tier audit firms. The test variables of regional city and regional-industry city specialization will indicate if they have any association with the level of audit fees.

In order to control for cross-sectional differences in size, risk and complexity, which are factors that affect the level of audit fees, a set of variables is included in the model to control for this effect. This approach has been used in prior studies and the models tend to have adjusted R^2 s of 0.70 or higher, which demonstrates good explanatory power. These models have also found to be “robust across different samples, time periods, countries, and sensitivity analyses for model misspecification.” (Ferguson et al. 2003).

The OLS regression model is specified as follows:

$$\begin{aligned}
 LAF = & \beta_0 + \beta_1 LTA + \beta_2 SSUB + \beta_3 SCSUB + \\
 & \beta_4 CATA + \beta_5 QUICK + \beta_6 DE + \beta_7 ROI + \\
 & \beta_8 FOREIGN + \beta_9 OPINION + \beta_{10} YE + \beta_{11} LOSS + \\
 & \beta_{12} BIG4 + \beta_{13} HKTOP10 + \beta_{14} CHINA + \\
 & \beta_{15} AUDITOR(I1) + \beta_{16} AUDITOR(I2) + \\
 & \beta_{17} AUDITOR(RS1) + \beta_{18} AUDITOR(RS2) + \\
 & \beta_{19} AUDITOR(RIS1) + \beta_{20} AUDITOR(RIS2) + e,
 \end{aligned}
 \tag{1}$$

$$\begin{aligned}
LAF = & \beta_0 + \beta_1 LTA + \beta_2 SSUB + \beta_3 SCSUB + \\
& \beta_4 CATA + \beta_5 QUICK + \beta_6 DE + \beta_7 ROI + \\
& \beta_8 FOREIGN + \beta_9 OPINION + \beta_{10} YE + \beta_{11} LOSS + \\
& \beta_{12} BIG4 + \beta_{13} HKTOP10 + \beta_{14} SECOND-TIER + \\
& \beta_{15} CHINA + \beta_{16} AUDITOR(II) + \beta_{17} AUDITOR(I2) + \\
& \beta_{18} AUDITOR(RS1) + \beta_{19} AUDITOR(RS2) + \\
& \beta_{20} AUDITOR(RIS1) + \beta_{21} AUDITOR(RIS2) + e,
\end{aligned}
\tag{2}$$

where:

LAF = natural log of audit fees;

LTA = natural log of total assets;

SSUB = square root of the number of subsidiaries;

CSUB = square root of the number of China subsidiaries;

CATA = ratio of current assets to total assets;

QUICK = ratio of current assets (less inventories) to current liabilities;

DE = ratio of long-term debt to total assets;

ROI = ratio of earnings before interest and tax to total assets;

FOREIGN = proportion of total assets held overseas;

OPINION = indicator variable, 1 for qualified/modified audit report;

YE = indicator variable, 1 for non-Dec 31st year-end;

LOSS = indicator variable, 1 for loss in any of the past 3 years.

CHINA = indicator variable, 1 for companies with 20% or more of their assets held in China.

Test variables:

AUDITOR(II) = indicator variable, 1 for auditor ranked 1st in the industry;

AUDITOR(I2) = indicator variable, 1 for auditor ranked 2nd in the industry;

BIG4 = indicator variable, 1 for auditor to be one of the Big 4;
HKTOP10 = indicator variable, 1 for auditor to be one of the top 10 national firms;
SECOND-TIER = indicator variable, 1 for auditor to be one of the second-tier firms other than the top 10;²
AUDITOR(RS1) = indicator variable, 1 for auditor ranked 1st in the China regional city;
AUDITOR(RS2) = indicator variable, 1 for auditor ranked 2nd in the China regional city;
AUDITOR(RIS1) = indicator variable, 1 for auditor ranked 1st in the industry of a regional city of a China-involved company;
AUDITOR(RIS2) = indicator variable, 1 for auditor ranked 2nd in the industry of a regional city of a China-involved company; and
e = error term assumed to have normal OLS regression properties.

AUDITOR(I1) and *AUDITOR(I2)* are variables to test whether industry specialization affects the level of audit fees. *AUDITOR(I1)* indicates whether the audit firm engaged has the largest market share in the particular industry and *AUDITOR(I2)* indicates whether the audit firm engaged has the second largest market share. Being first or second in an industry are both defined as industry specialists. Two methods (ranking method and market share benchmark method) are used for defining industry specialists in this study. Firstly, the ranking method (the primary method of this study) classifies an audit firm as an industry specialist if it has the largest or second largest market share (in proportion to total audit fees of a particular industry) in the industry, regardless of the level of market share that it actually holds. No particular benchmark is set for this method. Secondly, for the market share benchmark method, an audit firm will only be classified as a specialist if it can satisfy the predetermined market share benchmark of 20% or more of the total audit fees in the particular industry and that it has either the largest (1st ranked) or second largest (2nd ranked) market share within the industry regardless of the number

² This additional test variable is included in the secondary model only and is only applied to the extended tests of the study since comparative testing indicate insignificant results and thus, it will not be reported with the main tests of the study.

of companies being audited. The benchmark of 40% is also tested subsequently to see if results vary significantly by using different definition benchmarks of market share. After controlling for other factors that affect the level of audit fees, the model is able to test whether audits are priced differently by industry specialists. This will be indicated by a significant shift of the intercept positively in the fitted regression model.

The variables *AUDITOR(RS1)* and *AUDITOR(RS2)* are to test whether regional city specialization affects audit fee levels, which is a new idea developed in this study. The methods for defining regional specialists are similar to those for defining industry specialists. Again, both the ranking and benchmark methods are used. *AUDITOR(RS1)* indicates whether the engaged audit firm has the largest (*AUDITOR(RS2)* indicates the second largest) market share in the city, which the China-involved companies have most of their assets held. Under the ranking method, a regional city specialist is defined as an audit firm that has the largest or second largest market share in the city observed, (i.e. a city which China-involved Hong Kong companies have most of their assets held) in proportion to total audit fees received in that city. However, under the benchmark method, regional city specialists must first of all meet the predetermined market share benchmarks of 20% and 40% in order to be defined as specialists.

The remaining two variables, *AUDITOR(RIS1)* and *AUDITOR(RIS2)* test the combined specialization concept of industry and regional city specialization. A regional city-industry specialist is defined as an audit firm that has the largest or second largest market share in an industry of a particular China regional city.

As an extended part of the main tests of this study, the number of auditees is also taken into consideration because the audit firm may be a specialist in terms of market share in proportion to audit fees but it is difficult to justify the level of industry expertise that the audit firm possesses when it only deals with one client. For example, if an industry or a region has 100 auditees, it would be reasonable to assume the audit firm that audits 50 auditees is a specialist

since they are capable of dealing with a majority of clients in the same industry. From this, people would perceive the audit firm as a specialist because it must have a certain level of knowledge about the industry/region of concern if it deals with so many different client companies simultaneously. This knowledge is likely to be unobtainable from a single client regardless of the level of audit fees it pays. Furthermore, the probability of receiving greater fees in the future is also larger for audit firms that have more clients because all the companies that they are currently dealing with have potential to grow and fees could increase correspondingly. Therefore, business risk is minimized. However, for audit firms that audit one or a very small number of clients will have a higher business risk because if one of their clients discontinues its engagement, the audit firm would lose a significant amount of revenue from the small number of clients that it audits. In other words, business risk is less diversified. Hence, this study also uses the number of auditees as an alternative measure to define specialists to see how these definitions have impact on the results. The secondary model (2) is applied for this set of tests because it will be interesting to examine whether by adding an additional *SECOND-TIER* variable would better control for the non-Big 4 effects and whether results would significantly differ from those of the primary model. Preliminary comparative testing was conducted for the main tests and the variable appeared to be insignificant. Therefore, the *SECOND-TIER* variable is excluded from all main results with the application of the primary model only.

To be more specific and clear about the cause of different premiums, this study conducts three additional tests for audit fee premiums: 1) the companies involving China are separated from the rest of the data to specifically test for a premium by industry specialists; 2) the auditees which have chosen the Big 4 and non-Big 4 will be tested separately for the existence of specialist premiums; and 3) variables will be added for regional city specialisation to see if premiums are charged by regional city specialists.

Variables LAF, LTA, SSUB and SCSUB are transformed for linearization. Some observations have zero subsidiaries, it is impossible to take the natural

log of these observations because a natural log of zero is undefined. Hence, a square root of the number of subsidiaries is used in replacement of natural log (consistent with previous studies).

Of the eleven control variables in the regression model, LTA, SSUB, CSUB, FOREIGN, DE, CATA, LOSS and OPINION are expected to have positive signs meaning that these variables should trigger higher audit fees. Each of the variables is discussed below.

LTA represent clients' firm size and are expected to trigger higher fees as it increases because larger firms with more assets are expected to pay higher fees as more resources are required for auditing larger firms. SSUB, CSUB and FOREIGN represent the level of complexity; the more complex the firm structure, the more difficult the audit. Therefore, higher fees are expected to be charged. Audit risk is measured by DE, CATA, OPINION and LOSS, the higher the risk of the client firm, the riskier it is for the audit firm to undertake the audit because riskier firms have a greater possibility of going under and audit firms are at higher risk of issuing a clean opinion before losses of the risky companies are being reported. In this case, auditors are at greater risk of being sued by external parties for not foreseeing the poor performance of these companies. Hence, higher fees are expected for riskier firms because audit firms are also at higher risk. Higher fees are also expected in association with the issue of a qualified or modified opinion because these firms usually require more investigation efforts from audit firms. LOSS is also expected to be positive as in prior studies because audit firms consider loss-making firms are at greater risk of business failure. Therefore, it is reasonable to charge higher fees due to higher risk exposure by audit firms.

The remaining control variables in the model are expected to have negative signs. Firstly, QUICK is another variable that measures the audit risk level and a smaller quick ratio indicates higher risk because the firm is at greater risk of being unable to repay its debts as they become due in the short run. In other words, higher fees are expected with firms having smaller quick ratios as this indicates liquidity problems. These are regarded as risk factors to the firm.

Secondly, ROI has found to be associated with lower audit fees in prior studies. Auditors are at lower risk when engaging with client firms with greater profitability (i.e., higher ROI) because these firms are less likely to go under, meaning that auditors are exposed to lower risk and thus, lower audit fees would result. Thirdly, according to Ferguson et al. (2003), 30th June is the peak fiscal year-end. This varies across countries, for example, 30th June is the peak fiscal year-end in Australia and New Zealand but 31st December is the peak for US, UK and Hong Kong. Therefore, in this study, firms that do not report on 31st December (YE = 1) should result in lower fees because the demand for auditors at other times is less.

The remaining variables examine the propositions being tested in the study – whether there are Big 4 audit fee premiums and non-Big 4 discounts for industry specialist auditors, regional city specialist auditors and regional city-industry specialist auditors.

4.4 Statistical Procedures

Firstly, industry specialization is examined by listing the industry codes with the corresponding market share of each audit firm to determine which audit firms are specialists. Secondly, correlations are considered to see if there are any correlations within variables that would lead to misspecification of the model and how the variables are related. Both Pearson and Spearman correlations are examined. Thirdly, to test for the impact on audit fees, an OLS linear regression model including every variable is necessary. This study generally looks for whether the Big 4 charge a premium if they are industry/regional specialists, then whether the non-Big 4 charge a discount if they are industry/regional city specialists. In addition, the study examines whether regional city specialists charge premiums in particular industries, whether industry specialists charge a premium specifically to companies that are China-involved and whether the size of the premiums is affected by the auditees' selection of a Big 4 as opposed to a non-Big 4. Insignificant variables and the testing variables are excluded from the regression on an

experimental basis in attempt to test how the model will generate the greatest explanatory power.

Fourthly, collinearity and casewise diagnostics are examined. The eigenvalues and the condition index are examined for the collinearity diagnostics to detect the strength of multicollinearity in the model. The rule of thumb is that if the condition index is greater than 100 (Gujarati 2003), it indicates that there is severe multicollinearity in the model. If the index is between 10 and 30, it indicates there is moderate to strong multicollinearity. The purpose of this sensitivity analysis is to detect if any of the independent variables are highly correlated, which would bias the results for including such variables. For casewise diagnostics, it is to label observations that are regarded as outliers in the sample. The purpose of this test is to ensure the outliers are not biasing the overall results of the study. Hence, the final dataset used in this study excludes possible outliers that may bias the overall results from the casewise diagnostics.

Finally, a One-Sample Kolmogorov-Smirnov test is to be undertaken to test if the residuals are normally distributed. It is necessary to find out whether residuals are normally distributed because this is an essential assumption for a classical linear regression.

5.0 Results, Analysis & Discussion – Part 1

5.1 Descriptive Statistics

The descriptive statistics for the sample of 1,022 companies for 2004, 1,092 companies for 2005 and 1,122 companies for 2006 are reported in Table 5.1. This sample excludes all outliers identified by the casewise diagnostics in the later regression models to prevent biased results. These are listed in Appendix D. The values of mean, median, standard deviation, minimum and maximum are reported for each variable in the regression model. For the majority of the variables, results seemed acceptable since there are no severe outliers. The

mean audit fees are about HK\$1.88 million for 2004, HK\$2.57 million for 2005 and HK\$2.64 million for 2006. A steady increasing trend of audit fees can be observed from the results. This is partly due to the economic upturn of the Hong Kong economy (which was very high in 2005 and slowed in 2006) and the fact that more companies listed on the Hong Kong Stock Exchange paid larger audit fees. There are 62 companies with audit fees greater than HK\$10 million in 2006 while only 42 companies in 2005. The mean total assets in 2005 increased by almost fifty percent compared to 2004. However, it decreased by almost thirty percent in the subsequent year. As stated in 2004 and 2005's Government yearbook, there was a large economic upturn for Hong Kong and many more large companies became listed in 2005 as mentioned above. These large companies holding more assets pulled the average up in 2005 by a significant amount, especially the China banks. Furthermore, in 2006, the largest companies became even larger and in fact, some of these are classified as outliers from the casewise diagnostics. This is why a decrease is observed from 2005 to 2006 because the largest companies in 2005 are no longer included in 2006, which has a large impact on the average total assets. The largest companies in 2005 that are excluded in 2006 include: BOC HK (Holdings) Ltd., China Construction Bank Corp., Petrochina Co. Ltd., China Life Insurance Co. Ltd., China Mobile Ltd., China Petroleum & Chemical Corp. and China Telecom Corp. Ltd. The fact that the larger companies became even larger as a result of the economic upturn is stated in the Hong Kong Government yearbook for the three year period (http://www.yearbook.gov.hk/2004/en/03_01.htm). It may seem unreasonable to see such large fluctuations in the average of total assets over the three years but it is certainly the case in Hong Kong during the period of 2004 to 2006 since this is a period with many changing economic conditions that led to some unusual results in the data. A sensitivity test is conducted by including the large companies in 2006's data that were classified as outliers for consistency. An increase is observed in the average total assets, indicating the exclusion of outliers was the main reason for the decrease observed from 2005 to 2006. Also, financial services companies are excluded from the data as an additional test to ensure these have no significant impact on the test results.

The mean ROI actually decreased throughout the three-year period. It decreased from 28% in 2004 to 4% in 2005. One of the main reasons that 2004 has such a high mean ROI figure is due to the four companies, which have ROI of greater than 40% (but these are not outliers) and there is only one company in 2005 and 2006 that has a relatively large ROI. Furthermore, even though the economy is recovering during this year, some companies may not be able to recover at the same pace. It could take a period of time before these companies could make profits again and we can see the situation improving from 2005 to 2006 as the difference is very small.

The means of the variable, FOREIGN (proportion of total assets held overseas) for the three years seem acceptable as the difference from year to year is relatively small.¹ For another similar variable, CHINA (proportion of total assets held in China), the means for the three years are also relatively similar as for the FOREIGN variable.² The variable LOSS is to indicate whether the company experienced losses in any of the past three years. Results indicate a steady decreasing trend, which is consistent with the reasoning for increasing total assets that Hong Kong's economy is recovering over this three-year period after the appointment of a new country leader and is slowly moving out from poor economic conditions (e.g. a weak stock market). The proportion of companies that experienced losses in one of the past three years tends to be high (2004: 52%, 2005: 47% and 2006: 42%) but a quarter of this is attributed by smaller companies (i.e. companies with less than \$100m total assets). In 2004, 21% (113 out of 532 companies with losses) of the companies that experienced losses are smaller companies and there was 25% (130 out of 518 companies with losses) in 2005 and 23% (110 out of 474 companies with losses) in 2006, which are also quite consistent numbers. It is also clear that the number of companies with losses decreased steadily over the three years, which is consistent with the descriptive statistics reported.

¹The mean of FOREIGN for 2004 is 50.17%, 2005 is 56.76% and 2006 is 56.84%.

² The mean of CHINA for 2004 is 60.86%, 2005 is 64.74% and 2006 is 63.90%.

For the QUICK variable, a smaller quick ratio means higher risk for the company due to the less likelihood of them being able to repay their current debts on time and thus, go into liquidity problems. The mean QUICK in 2005 and 2006 are relatively stable but a larger change is observed from 2004 (13.24) to 2005 (4.01). This is due to the 13 companies (Dah Sing Bank Group with the largest) with quick ratios greater than 100 in 2004. However, there were only five companies with large quick ratios in both 2005 and 2006.^{2b}

For the industry specialist variables, descriptive statistics are obtained for the three alternative definitions tested in this study: 1) ranking method; 2) 20% market share benchmark method; and 3) 40% market share benchmark method. A small decreasing trend of average first-ranked industry specialists (AUDITOR(I1)) is seen for all three definitions. For the average second-ranked industry specialists (AUDITOR(I2)), the results are similar for the three years with a very small decreasing trend.³ The mean values of AUDITOR(I1) are 26% in 2004, 25% in 2005 and 23% in 2006 under the ranking method. For the 20% market share benchmark method, they are 30% in 2004, 29% in 2005 and 26% in 2006.⁴ These are less than other relevant studies, for example, Ferguson et al. (2003) had a value of 36%. For the audit firm type variables, we can see the average percentage of listed companies engaging with a Big 4 audit firm has decreased from 75.05% in 2004 to 67.11% in 2006, indicating the Big 4 being less used among listed clients. The mean values of HKTOP10 for the three years provide supporting results for this, as the average percentage of companies engaging with the top ten second-tier audit firms increased from 18.2% in 2004 to 24.87% in 2006, showing that listed clients have favoured switching towards non-Big 4 audit firms during this three-year period.

^{2b} The means of QUICK when excluding financial services companies are: 4.52 (2004), 3.73 (2005) and 3.85 (2006).

³ Under the 40% market share benchmark method, very few 2nd ranked audit firms are defined as industry specialists for the three-year period, hence, the mean values for AUDITOR(I2) under this method are close to 0.

⁴ The mean values of AUDITOR(II) under the 40% market share benchmark method are 16% in 2004, 15% in 2005 and 13% in 2006.

Regarding the regional city specialization variables, the same three alternative definitions are examined as for industry specialization. For AUDITOR(RS1) under the ranking method, an average of 11.84% of the client firms are classified as using a regional city specialist in 2004, 14.01% in 2005 and 19% in 2006. The average increased gradually over the three years and this is due to more large China-involved companies became listed in 2005 and 2006 (e.g. Bank of Communications). Hence, the demand for auditors increased and it is likely that audit firms may benefit from the opportunity to specialize in these firms, which could be of value to the client firms. This leads to some interesting thoughts about the different types of auditors' specialization, for example, whether it is more difficult or attractive to become a regional city specialist than an industry specialist. If so, further investigation is necessary to determine whether each type of specialization would lead to a fee premium or discount. If it is easier to become a certain type of specialist, it is important to examine whether this will be less valuable to the auditees as this may also affect the level of audit fees.

Overall, there are no particular problems identified so far with the descriptive statistics generated. Based on these, the data that I use for this study is regarded as reliable and valid although further tests will be conducted.

Table 5.1
2004 - 2006 Hong Kong SAR Descriptive Statistics
Sample (n = 3236)
(2004 = 1,022; 2005 = 1,092 and 2006 = 1,122)

Variables	Mean			Median			Std. Dev.			Min.			Max.		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
<i>AF</i>	1,879.52	2,572.02	2,635.95	901.50	1,110.00	1,348.00	3,944.3682	6,697.7412	4,612.4176	30.00	47.00	67.55	5,9165.00	135,360.00	56,600.00
<i>LAF</i>	6.90	7.08	7.23	6.80	7.01	7.21	1.0150	1.0969	1.0680	3.40	3.85	4.21	10.99	11.82	10.94
<i>SUB</i>	18.74	18.88	19.73	13.00	13.00	14.00	24.3258	23.8700	25.5523	0.00	0.00	0.00	332.00	344.00	393.00
<i>SSUB</i>	3.86	3.89	3.97	3.61	3.61	3.74	1.9595	1.9413	1.9941	0.00	0.00	0.00	18.22	18.55	19.82
<i>CSUB</i>	4.61	5.07	5.68	2.00	3.00	3.00	8.4073	8.3263	9.3468	0.00	0.00	0.00	106.00	92.00	112.00
<i>SCSUB</i>	1.64	1.76	1.86	1.41	1.73	1.73	1.3883	1.4091	1.4859	0.00	0.00	0.00	10.30	9.59	10.58
<i>TA</i>	8,696,354	15,559,027	10,932,324	713,581	838,460	1,020,319	44,758,872	148,376,440	66,737,457	782	1,392	907	796,776,000	4,402,312,320	1,712,605,068
<i>LTA</i>	13.60	13.74	13.92	13.48	13.64	13.84	2.0638	2.1269	2.0758	6.66	7.24	6.81	20.50	22.21	21.26
<i>CATA</i>	0.54	0.54	0.55	0.55	0.55	0.56	0.2649	0.2578	0.2562	0.00	0.01	0.01	1.18	1.01	1.00
<i>QUICK</i>	13.24	4.01	4.16	1.39	1.34	1.38	142.9656	14.4796	16.0550	-1.66	0.01	0.02	2,926.25	260.57	272.18
<i>DE</i>	0.12	0.12	0.13	0.04	0.05	0.05	0.3712	0.2862	0.3061	0.00	-0.73	-0.01	9.10	6.87	6.53
<i>ROI</i>	0.28	0.04	0.02	0.05	0.06	0.07	4.5353	2.4791	0.2717	-9.47	-15.41	-3.46	82.78	79.21	2.91
<i>FOREIGN</i>	0.50	0.57	0.57	0.51	0.65	0.63	0.4012	0.3912	0.3861	0.00	0.00	0.00	1.00	1.00	1.00
<i>OPINION</i>	0.08	0.06	0.05	0	0	0	0.2672	0.2434	0.2084						
<i>YE</i>	0.40	0.38	0.37	0	0	0	0.4904	0.4852	0.4823						
<i>LOSS</i>	0.52	0.47	0.42	1	0	0	0.4998	0.4996	0.4942						
<i>BIG4</i>	0.75	0.70	0.67	1	1	1	0.4329	0.4590	0.4700						
<i>HKTOP10</i>	0.18	0.23	0.25	0	0	0	0.3860	0.4227	0.4324						
<i>CHINA</i>	0.61	0.65	0.64	1	1	1	0.4883	0.4780	0.4805						
<i>AUDITOR(11) 1st Ranked</i>	0.26	0.25	0.23	0	0	0	0.4390	0.4321	0.4204						
<i>AUDITOR(12) 2nd Ranked</i>	0.14	0.18	0.18	0	0	0	0.3491	0.3824	0.3836						
<i>AUDITOR(11) 20%</i>	0.30	0.29	0.26	0	0	0	0.4574	0.4520	0.4375						

<u>Variables</u>	<u>Mean</u>	<u>Median</u>	<u>Std. Dev.</u>	<u>Min.</u>	<u>Max.</u>							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
AUDITOR(I2) 20%	0.18	0.14	0.16	0	0	0	0.3836	0.3519	0.3672			
AUDITOR(I1) 40%	0.16	0.15	0.13	0	0	0	0.3654	0.3592	0.3316			
AUDITOR(I2) 40%	0.00	0.00	0.00	0	0	0	0.0000	0.0303	0.0000			
AUDITOR(RS1) 1st Ranked	0.12	0.14	0.19	0	0	0	0.3232	0.4073	0.3902			
AUDITOR(RS2) 2nd Ranked	0.11	0.09	0.14	0	0	0	0.3101	0.3185	0.3433			
AUDITOR(RS1) 20%	0.12	0.14	0.12	0	0	0	0.3221	0.4073	0.3902			
AUDITOR(RS2) 20%	0.09	0.06	0.11	0	0	0	0.2891	0.2695	0.3092			
AUDITOR(RS1) 40%	0.06	0.07	0.12	0	0	0	0.2296	0.2561	0.2354			
AUDITOR(RS2) 40%	0.00	0.01	0.01	0	0	0	0.0541	0.0953	0.0596			
AUDITOR(RIS1)	0.19	0.20	0.18	0	0	0	0.3947	0.3978	0.3881			
AUDITOR(RIS2)	0.10	0.11	0.12	0	0	0	0.3063	0.3185	0.3286			

Where:

<i>AF</i>	= audit fees in HK\$000;
<i>LAF</i>	= natural log of audit fees;
<i>SUB</i>	= number of subsidiaries;
<i>SSUB</i>	= square root of the number of subsidiaries;
<i>CSUB</i>	= number of China subsidiaries;
<i>SCSUB</i>	=square root of the number of China subsidiaries;
<i>TA</i>	= total assets in HK\$000;
<i>LTA</i>	= natural log of total assets;
<i>CATA</i>	= ratio of current assets to total assets;
<i>QUICK</i>	= ratio of current assets (less inventories) to current liabilities;
<i>DE</i>	= ratio of long-term debt to total assets;
<i>EQUITY</i>	= total equity in HK\$000;

<i>ROI</i>	= ratio of earnings before interest and tax to total assets;
<i>FOREIGN</i>	= proportion of total assets held overseas;
<i>OPINION</i>	= indicator variable, 1 for qualified or modified audit report;
<i>YE</i>	= indicator variable, 1 for non-December 31st year-end;
<i>LOSS</i>	= indicator variable, 1 for loss in any of the past 3 years;
<i>BIG4</i>	= indicator variable, 1 for auditor to be one of the Big 4;
<i>HKTOP10</i>	= indicator variable, 1 for auditor to be one of the top 10 national firms;
<i>CHINA</i>	= indicator variable, 1 for companies with 20% or more asset held in China;
<i>AUDITOR(I1) 1st Ranked</i>	= indicator variable, 1 for auditor ranked 1st in the industry regardless of market share;
<i>AUDITOR(I2) 2nd Ranked</i>	= indicator variable, 1 for auditor ranked 2nd in the industry regardless of market share;
<i>AUDITOR(I1) 20%</i>	= indicator variable, 1 for auditor ranked 1st in the industry with $\geq 20\%$ of market share;
<i>AUDITOR(I2) 20%</i>	= indicator variable, 1 for auditor ranked 2nd in the industry with $\geq 20\%$ of market share;
<i>AUDITOR(I1) 40%</i>	= indicator variable, 1 for auditor ranked 1st in the industry with $\geq 40\%$ of market share;
<i>AUDITOR(I2) 40%</i>	= indicator variable, 1 for auditor ranked 2nd in the industry with $\geq 40\%$ of market share;
<i>AUDITOR(RS1) 1st Ranked</i>	= indicator variable, 1 for auditor ranked 1st in the China regional city regardless of market share;
<i>AUDITOR(RS2) 2nd Ranked</i>	= indicator variable, 1 for auditor ranked 2nd in the China regional city regardless of market share;
<i>AUDITOR(RS1) 20%</i>	= indicator variable, 1 for auditor ranked 1st in the China regional city with $\geq 20\%$ of market share;
<i>AUDITOR(RS2) 20%</i>	= indicator variable, 1 for auditor ranked 2nd in the China regional city with $\geq 20\%$ of market share;
<i>AUDITOR(RS1) 40%</i>	= indicator variable, 1 for auditor ranked 1st in the China regional city with $\geq 40\%$ of market share;
<i>AUDITOR(RS2) 40%</i>	= indicator variable, 1 for auditor ranked 2nd in the China regional city with $\geq 40\%$ of market share;
<i>AUDITOR(RIS1)</i>	= indicator variable, 1 for auditor ranked 1st in the industry of a China regional city; and
<i>AUDITOR(RIS2)</i>	= indicator variable, 1 for auditor ranked 2nd in the industry of a China regional city.

5.2 Correlations

Both parametric and non-parametric correlation analyses are conducted to explore how each of the variables is related and the results are reported in this section. For parametric correlation, the Pearson correlation is used to analyze the linear association between variables. All correlation results are presented in Tables 5.2a, b and c.

The dependent variable LAF has a highly significant positive relationship ($p < 0.01$) with SSUB, SCSUB, LTA, FOREIGN and BIG4 and the three specialization variables in all three years, indicating that the higher level of audit fees, the more total assets the company has, the more subsidiaries the company possesses and the higher the proportion of assets held overseas. This is consistent with the assumption that the larger the client firm size and the more complex its structure is, the more audit effort and resources required and therefore, higher fees would result. Furthermore, results indicate that the higher the audit fees, the more likely for the engaged auditor to be one of the BIG 4 and/or being a specialist in a particular region or industry. These results seem reasonable because it is believed that the Big 4 usually possess more sophisticated employees and have more resources to provide better quality audits so they usually associate with higher audit fees. Also, auditors being specialists is also value-adding to auditees because specialists will often have better knowledge about the specific region or industry and would also be able to provide better quality audits to auditees. Since auditees realize the benefit of auditors' industry/regional specialization, they are willing to pay more.

A highly significant negative relationship with LAF also exists for variables: CATA, YE, LOSS, OPINION ($p < 0.05$ in 2004), HKTOP10 and SECOND-TIER for all three years. Firstly, CATA is expected to have a positive relationship with LAF because the more current assets a company has, (i.e. inventories and accounts receivables), the more complicated the audit is, which requires more audit effort. Therefore, higher fees should be charged. However, from the results, a negative relationship is detected. This is likely to

be caused by the size of companies in the data because there are many large companies with high levels of total assets, while having a very low level or even no current assets like inventories (for example, financial institutions) that requires more audit work. However, due to their firm size, large fees are still charged regardless of the level of these current assets, which explains the negative relationship detected. This is supported by the fact that there are 189, 188 and 176 companies in 2004, 2005 and 2006 respectively with no inventories. The highest fees paid from these companies was Bank of China Hong Kong (Holdings) Limited, which paid \$40 million in 2004; China Construction Bank, which paid \$135 million in 2005 and Dah Sing Financial Holdings Limited, which paid \$63 million in 2006. Although, these companies (i.e. financial institutions) have no inventories and do not require as much audit work based on the usual assumption mentioned above, they are still charged high audit fees due to their large firm size. Due to their unique nature, financial institutions are excluded from the sample later on in the regression analyses to test whether results are sensitive to the inclusion of these companies.

Secondly, this study found that the less likely that a company's balance date is on 31st December (which could lead to off-peak pricing), the higher the audit fees, which is consistent with the previous studies discussed in chapter 2. Furthermore, results show that a lower likelihood for a company to have suffered a loss in any of the past three years is associated with higher audit fees which is the opposite of some prior studies. For example, Hay et al. (2006) found a positive relationship between LOSS and audit fees. They argued that audit firms tend to charge higher fees if the client companies are at higher risk (i.e. experienced recent losses) in order to balance out the higher audit risk involved. However, these unexpected results do not occur in multivariate testing when other effects are controlled for.

However, the unique characteristics and culture in the Hong Kong audit market (i.e. highly competitive due to many second-tier firms involved) may lead to a different explanation. In this case, it is argued that auditors often would not expect clients in poor financial conditions (because these companies

are usually smaller in size) are capable of paying large fees. Therefore, in order to remain competitive and to attract these loss-making clients, lower audit fees would result since they realize these clients are low-priced audit seekers. The cultures of audit firms in Hong Kong are relatively more concerned about the ability of attracting more clients rather than focusing on the audit risk involved, perhaps earning audit fees revenue is their first priority. Multivariate test results will help to clarify this issue.

Thirdly, the higher the audit fees, the less likely for the auditee to have a modified/qualified audit opinion issued. This may be because smaller firms are more likely to be issued a modified/qualified audit fee. Lastly, the higher the audit fees, the less likely for the engaged auditor to be one of the top ten second-tier firms, indicating the possibility that these second-tier firms often offer discounts to attract new clients in order to remain competitive as opposed to charge audit fee premiums like the Big 4 does and also because smaller audit firms tend to have smaller clients.

Variable ROI is found to be positively correlated ($p < 0.01$) with LAF for the three years under Spearman correlation analyses. These nonparametric results are shown along with the Pearson correlation results in Tables 5.2a, b and c. It is usually expected that lower ROI is associated with higher audit fees because these poor-performing companies are at greater risk of liquidation and auditors usually charge higher fees when they face high risk companies. However, from the results shown in the tables below, a positive relationship is found, indicating the higher the ROI, the higher the audit fees. Again, this is probably due to firm size, larger firms in Hong Kong are usually more profitable and they tend to pay higher audit fees. The DE variable also had a similar situation. It was only found to have a highly significant positive relationship with LAF under the nonparametric analysis for all years. This is explained by the fact that auditees with higher levels of debt are riskier and audit firms are likely to charge higher fees to secure themselves.

The unexpected effects of the negative correlation of CATA and LAF and the positive correlation of ROI and LAF mentioned above is further investigated

in multiple regression models, when size is controlled for, which are reported in chapter 6 of this study. The influence of the large financial institutions in the sample is also a concern. It is common that financial institutions are excluded from the sample in audit fee studies due to their fees are determined differently from other companies because of the regulated nature of the financial industry. Therefore, the correlation results without the financial institutions are included in the appendices for comparison. Correlation results of the sample excluding these are also reported in the appendices to ensure these do not lead to results that are significantly different from the original ones. Results indicate that after excluding the financial institutions from the sample, the unexpected effects remain (i.e. positive correlation of ROI and LAF and the negative correlation of CATA and LAF). As mentioned, this will be further explained in chapter 6 in the multiple regressions when other variables are controlled for.

In addition, there are also some correlations between other variables that are highly significant. For example, SCSUB is positively associated with SSUB, LTA, CATA, FOREIGN, YE, LOSS, BIG4, HKTOP10 and CHINA. These could affect the regression models due to possible multicollinearity problem. Hence, diagnostic tests for multicollinearity are conducted later on in the study to examine the underlying concerns.

	LAF	SSUB	SCSUB	LTA	CATA	QUICK	DE	ROI	FOREIGN	OPINION	YE	LOSS	BIG4	HKTOP10	CHINA	AUDITOR (I1)	AUDITOR (I2)	AUDITOR (RS1)	AUDITOR (RS2)	AUDITOR (RS1)	AUDITOR (RS2)	
(Pearson)																						
YE	-242(**)	0.01	-199(**)	-248(**)	.078(*)	0.053	-0.02	-0.042	-204(**)	-0.035	1	-138(**)	-0.068(*)	0.028	-166(**)	0.001	-0.03	-102(**)	-0.001	-111(**)	-0.019	
	0	0.749	0	0	0.015	0.091	0.522	0.181	0	0.263		0	0.03	0.374	0	0.967	0.345	0.001	0.979	0	0.542	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
LOSS	-303(**)	-0.031	-235(**)	-371(**)	0.025	-0.022	-0.051	-0.02	-188(**)	197(**)	-138(**)	1	-164(**)	0.022	-107(**)	-105(**)	-0.042	-127(**)	-0.04	-0.022	0.021	
	0	0.327	0	0	0.432	0.481	0.103	0.522	0	0	0	0	0	0.003	0.001	0.001	0.18	0	0.206	0.009	0.5	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
BIG4	465(**)	-188(**)	-188(**)	-422(**)	-0.098(**)	-0.028	-123(**)	-0.051	0	-197(**)	-0.068(*)	-164(**)	1	-812(**)	-0.036	327(**)	-234(**)	-197(**)	200(**)	-202(**)	0.061	
	0	0	0	0	0.001	0.368	0	0.103	0.992	0	0.03	0	0	0	0.248	0	0	0	0	0	0.006	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
HKTOP10	-368(**)	-156(**)	-128(**)	-340(**)	0.021	0.046	-112(**)	-123(**)	0.046	148(**)	0.028	-0.022	-812(**)	1	0.077(*)	-282(**)	-192(**)	-157(**)	-164(**)	-153(**)	-0.054	
	0	0	0	0	0.009	0.142	0	0	0.144	0	0.374	0.003	0	0	0.014	0	0	0	0	0	0.087	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
CHINA	0.056	-107(**)	-452(**)	0.007	0.032	-131(**)	-0.026	-112(**)	656(**)	0.029	-166(**)	-107(**)	-0.036	0.077(*)	1	0.032	-0.013	294(**)	279(**)	-392(**)	274(**)	
	0.071	0.001	0	0.812	0.302	0	0.403	0	0	0.347	0	0.001	0.248	0.014		0.3	0.68	0	0	0	0	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (I1)	-184(**)	0.076(*)	0.090(**)	-144(**)	-0.015	0.022	0.022	-0.026	0.03	-0.097(**)	0.001	-105(**)	-327(**)	-262(**)	0.032	1	-235(**)	-162(**)	211(**)	-264(**)	0.047	
	0	0.016	0.004	0	0.643	0.474	0.482	0.403	0.336	0.002	0.967	0.001	0	0	0.3	0	0	0	0	0	0.018	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (I2)	-141(**)	0.039	0.023	-117(**)	-0.03	-0.034	-0.097(**)	0.022	0.011	-0.013	-0.03	-0.042	-234(**)	-192(**)	-0.013	-235(**)	1	0.059	-0.051	-0.021	-0.047	
	0	0.208	0.454	0	0.334	0.272	0.027	0.482	0.727	0.685	0.345	0.18	0	0	0.68	0	0.058	0.105	0.503	0.13		
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (RS1)	226(**)	-102(**)	-264(**)	-172(**)	-0.012	-0.067(**)	0.061	-0.097(**)	196(**)	-0.061	-102(**)	-127(**)	-197(**)	-157(**)	294(**)	-162(**)	0.059	1	-127(**)	-512(**)	0.022	
	0	0.001	0	0	0.705	0.033	0.051	0.027	0	0.052	0.001	0	0	0	0	0.058	0	0	0	0	0.003	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (RS2)	0.052	-0.031	-0.087(**)	0.028	0.033	-0.031	-0.02	0.061	-152(**)	-0.041	-0.001	-0.04	-200(**)	-164(**)	279(**)	211(**)	-0.051	-127(**)	1	-327(**)	0.007	
	0.097	0.327	0.002	0.367	0.288	0.327	0.523	0.051	0	0.198	0.979	0.206	0	0	0	0	0.105	0	0	0	0.005	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (RS1)	-153(**)	0.047	-241(**)	-121(**)	-0.014	-0.056	0.047	-0.02	230(**)	-0.049	-111(**)	-0.062(**)	-202(**)	-153(**)	392(**)	-264(**)	-0.021	512(**)	-327(**)	1	-167(**)	
	0	0.133	0	0	0.685	0.071	0.134	0.523	0	0.121	0	0.009	0	0	0	0.503	0	0	0	0	0	
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022
AUDITOR (RS2)	0.061	0.03	-130(**)	0.028	0.02	-0.018	-0.05	0.047	166(**)	0.033	-0.019	0.021	-0.068(**)	-0.054	274(**)	0.047	-0.047	0.022	0.027	-167(**)	1	
	0.05	0.335	0	0.379	0.533	0.568	0.11	0.134	0	0.297	0.542	0.5	0.006	0.087	0	0.018	0.13	0.003	0.005	0		
	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022	1.022

* Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 5.2b
2005 Correlation – Parametric (Pearson) & Non-parametric (Spearman)
(n = 1, 092)

	LAF	SSUB	SCSUB	LTA	CATA	QUICK	DE	ROI	FOREIGN	OPINION	VE	LGSS	BIG4	HKTOP10	CHINA	AUDITOR	AUDITOR	AUDITOR (RS1)	AUDITOR (RS2)	AUDITOR (RS1)	AUDITOR (RS2)	
	(Pearson)															(1)	(2)					
LAF	1	.478(**)	.455(**)	.848(**)	-.261(**)	-.194(**)	0.031	-0.018	.184(**)	-.126(**)	-.272(**)	-.329(**)	.598(**)	-.437(**)	.071(*)	.225(**)	-.204(**)	.078(**)	0.002	.214(**)	.074(*)	
(Spearman)		0	0	0	0	0	0.329	0.543	0	0	0	0	0	0	0.019	0	0	0.01	0.958	0	0.014	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
SSUB	.494(**)	1	.491(**)	-.460(**)	-.184(**)	-.132(**)	.063(*)	-0.013	-.110(**)	-0.051	0.034	-0.033	.207(**)	-.182(**)	-.135(**)	.071(*)	.077(*)	-0.048	-0.028	0.047	-0.009	
	0	0	0	0	0	0	0.036	0.678	0	0.093	0.26	0.276	0	0	0	0.02	0.011	0.116	0.363	0.124	0.764	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
SCSUB	.458(**)	.415(**)	1	.391(**)	-0.054	-.164(**)	0.001	-0.012	.413(**)	-0.039	-.202(**)	-.238(**)	.216(**)	-.144(**)	.404(**)	.085(**)	-.116(**)	.183(**)	-.123(**)	.254(**)	.117(**)	
	0	0	0	0	0.072	0	0.98	0.692	0	0.197	0	0	0	0	0	0.005	0	0	0	0	0	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
LTA	.837(**)	.465(**)	.398(**)	1	-.406(**)	-.121(*)	-0.017	-0.006	.140(**)	-.192(**)	-.242(**)	-.400(**)	.514(**)	-.403(**)	0.011	.182(**)	-.203(**)	0.052	0.011	-.159(**)	0.033	
	0	0	0	0	0	0	0.57	0.835	0	0	0	0	0	0	0.714	0	0	0.085	0.726	0	0.277	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
CATA	-.242(**)	-.161(*)	-0.038	-.391(**)	1	.121(**)	-.155(**)	0.03	0.016	0.006	.063(*)	0.012	-.129(**)	-.125(**)	.061(*)	-0.013	-.080(**)	0.044	-0.019	0.006	0.029	
	0	0	0.205	0	0	0	0.32	0.598	0.846	0.037	0.684	0	0	0	0.044	0.667	0.038	0.149	0.535	0.851	0.334	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
QUICK	-.182(**)	-.102(**)	-.208(**)	-.147(**)	.273(**)	1	-0.057	-0.038	-.140(**)	-0.038	0.018	.078(*)	-0.043	0.037	-.108(**)	-0.037	-0.025	-0.047	-0.032	-0.042	-0.043	
	0	0.001	0	0	0	0	0.061	0.797	0	0.208	0.553	0.01	0.159	0.226	0	0.222	0.414	0.117	0.294	0.163	0.153	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
DE	.334(**)	.276(**)	.176(*)	.404(**)	-.472(**)	-.262(**)	1	-.083(*)	-0.028	0.032	0.029	.074(*)	-0.03	0.017	-.067(*)	-0.018	-0.007	-0.031	-0.019	0.013	-0.044	
	0	0	0	0	0	0	0	0.006	0.359	0.298	0.332	0.014	0.318	0.585	0.028	0.545	0.824	0.299	0.53	0.67	0.146	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
ROI	.320(**)	.154(**)	.181(**)	.397(**)	-0.023	.146(**)	.060(*)	1	-0.03	.063(*)	-0.034	-0.011	0.004	-0.052	-0.021	0.002	0.004	-0.008	-0.004	-0.001	-0.004	
	0	0	0	0	0.446	0	0.046	0	0.323	0.039	0.261	0.709	0.906	0.086	0.48	0.953	0.904	0.781	0.907	0.97	0.898	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
FOREIGN	.185(**)	-.113(**)	.438(**)	-.144(*)	0	-.200(**)	0.054	.102(*)	1	0.047	-.251(*)	-.199(**)	0.034	0.027	.690(**)	0.023	0.008	.291(**)	.185(**)	.261(**)	.178(**)	
	0	0	0	0	0.999	0	0.074	0.001	0	0.117	0	0	0.264	0.378	0	0.44	0.793	0	0	0	0	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
OPINION	-.153(**)	-0.053	-0.039	-.208(**)	0.004	-.140(**)	-.068(*)	-.228(**)	0.035	1	-0.016	-.190(**)	-.264(**)	.187(*)	0.042	-.114(*)	-.081(**)	0.005	-0.034	-.081(**)	-0.022	
	0	0.083	0.193	0	0.885	0	0.025	0	0.253	0	0.591	0	0	0	0.166	0	0.007	0.871	0.258	0.007	0.459	
	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092

	LAF	SSUB	SCSUB	LTA	CATA	QUICK	DE	ROI	FOREIGN	OPNCON	YE	LOSS	BIG4	HKTOP10	CHINA	AUDITOR(I)	AUDITOR(I2)	AUDITOR (RS1)	AUDITOR (RS2)	AUDITOR (RS1)	AUDITOR (RS2)
(Pearson)																					
YE	-.283**	0.031	-.196**	-.243**	.065*	.117**	-0.04	-.086**	-.254**	-0.016	1	-.196**	-.118**	0.058	-.183**	0.007	-.071**	-0.045	-0.049	-.149**	-0.019
0	0.313	0	0	0.032	0	0.189	0.004	0	0.591	0	0	0	0.056	0	0.828	0.019	0.141	0.105	0	0.521	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
LOSS	-.334**	-0.016	-.243**	-.408**	0.013	-0.027	-0.032	-.448**	-.205**	-.190**	.196**	1	-.275**	.202**	-.139**	-.139**	-.114**	-0.048	-.065**	-.151**	-0.014
0	0.609	0	0	0.659	0.373	0.298	0	0	0	0	0	0	0	0	0	0	0.11	0.031	0	0.655	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
BIG4	.597**	.213**	.223**	.535**	-.129**	-0.034	-.154**	.309**	0.043	-.264**	-.118**	-.275**	1	-.838**	-0.013	.363**	.305**	0.01	-0.002	.235**	.148**
0	0	0	0	0	0.258	0	0	0.158	0	0	0	0	0	0.88	0	0	0.747	0.944	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
HKTOP10	-.478**	-.188**	-.150**	-.425**	.128**	0.033	-.148**	-.255**	0.018	.187**	0.058	.202**	-.838**	1	.080**	-.301**	-.256**	0.02	-0.007	-.185**	-.108**
0	0	0	0	0	0.276	0	0	0.546	0	0.056	0	0	0	0.008	0	0	0.512	0.809	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
CHINA	.072*	-.111**	.454**	0.005	0.053	-.147**	0.019	0.021	.651**	0.042	-.183**	-.139**	-0.013	.080**	1	-0.02	0.037	.380**	.265**	.365**	.265**
0.017	0	0	0.865	0.08	0	0.537	0.495	0	0.166	0	0	0.88	0.008	0.514	0.221	0	0	0	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(I)	.217**	.072*	.105**	.175**	-0.014	0.022	0.01	-.170**	0.027	-.114**	0.007	-.139**	.363**	-.301**	-0.02	1	-.287**	0.017	0	.217**	0
0	0.017	0.001	0	0.643	0.475	0.738	0	0.366	0	0.828	0	0	0	0.514	0	0.586	0.998	0	0.996	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(I2)	.215**	.090**	.081**	.199**	-.083**	-0.057	-.092**	.079**	0.012	-.081**	-.071**	-.114**	.305**	-.256**	0.037	-.267**	1	0.025	0.006	-.119**	0.059
0	0.003	0.007	0	0.006	0.058	0.007	0.009	0.697	0.007	0.019	0	0	0	0.221	0	0.402	0.844	0	0.053		
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(RS1)	.078**	-0.029	.214**	0.052	0.044	-.085**	0.032	0.05	.284**	0.005	-0.045	-0.048	0.01	0.02	.380**	0.017	0.025	1	-.185**	-.118**	.126**
0.01	0.335	0	0.083	0.142	0.005	0.283	0.1	0	0.871	0.141	0.11	0.747	0.512	0	0.586	0.402	0	0	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(RS2)	0.001	-0.022	.114**	0.012	-0.023	0.006	0.007	0.003	-.170**	-0.034	-0.049	-.065**	-0.002	-0.007	.265**	0	0.006	-.185**	1	-.111**	0.006
0.962	0.474	0	0.7	0.451	0.852	0.83	0.934	0	0.258	0.105	0.031	0.944	0.809	0	0.996	0.844	0	0	0	0.837	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(RS1)	.205**	0.055	.253**	.155**	0.004	-.070**	.074**	.086**	.242**	-.081**	-.148**	-.151**	.235**	-.185**	.365**	.217**	.119**	.118**	.111**	1	-.178**
0	0.068	0	0	0.908	0.021	0.014	0.004	0	0.007	0	0	0	0	0	0	0	0	0	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092
AUDITOR(RS2)	.096**	0.014	.127**	0.038	0.026	-0.058	-0.018	0.03	-.172**	-0.022	-0.019	-0.014	-.148**	-.185**	.265**	0	0.059	.128**	0.006	-.178**	1
0.002	0.651	0	0.215	0.382	0.062	0.542	0.314	0	0.459	0.521	0.655	0	0	0	0.996	0.053	0	0.837	0	0	
1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092	1.092

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 5.2c
2006 Correlation – Parametric (Pearson) & Non-parametric (Spearman)
(n = 1, 122)

	LAF	SSUB	SCSUB	LTA	CATA	QUICK	DE	ROI	FOREIGN	OPINION	VE	LGSS	BIG4	HKTOP10	CHINA	AUDITOR (R1)	AUDITOR (R2)	AUDITOR (RS1)	AUDITOR (RS2)	AUDITOR (RS1)	AUDITOR (RS2)
	(Pearson)																				
LAF	1	.524(**)	.502(**)	.823(**)	-.243(**)	-.151(**)	0.039	.228(**)	-.171(**)	-.123(**)	-.269(**)	-.403(**)	.588(**)	-.444(**)	.083(**)	.229(**)	.221(**)	.221(**)	.092(**)	.241(**)	.092(**)
(Spearman)		0	0	0	0	0	0	0	0	0	0	0	0	0	0.005	0	0	0	0.002	0	0.002
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
SSUB	.509(**)	1	.510(**)	-.477(**)	-.162(**)	-.131(**)	.066(*)	.100(**)	-.111(**)	-0.05	0.032	-.127(**)	.235(**)	-.182(**)	-.112(**)	.076(*)	-.108(**)	.063(*)	-0.025	0.054	0.027
	0	0	0	0	0	0	0.028	0.001	0	0.098	0.281	0	0	0	0	0.011	0	0.036	0.394	0.073	0.364
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
SCSUB	.477(**)	-.428(**)	1	-.405(**)	-.063(*)	-.149(**)	0.018	.093(**)	-.392(**)	-0.041	-.216(**)	-.271(**)	.233(**)	-.157(**)	-.426(**)	.099(**)	-.135(**)	.268(**)	-.167(**)	-.298(**)	-.130(**)
	0	0	0	0	0.035	0	0.552	0.002	0	0.174	0	0	0	0	0	0.001	0	0	0	0	0
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
LTA	.824(**)	-.462(**)	.396(**)	1	-.425(**)	-.128(**)	0.018	.350(**)	-.116(**)	-.168(**)	-.268(**)	-.488(**)	.532(**)	-.416(**)	0.03	-.194(**)	-.195(**)	.165(**)	.081(**)	-.172(**)	.078(**)
	0	0	0	0	0	0	0.557	0	0	0	0	0	0	0	0.312	0	0	0	0.007	0	0.009
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
CATA	-.247(**)	-.167(**)	-0.05	-.411(**)	1	-.124(**)	-.133(**)	-0.054	-0.024	0.035	.067(**)	-.079(**)	-.157(**)	-.125(**)	0.033	-0.008	-.084(**)	-0.014	0.041	0.033	0.025
	0	0	0.095	0	0	0	0	0.071	0.416	0.237	0.033	0.038	0	0	0.268	0.786	0.035	0.639	0.167	0.268	0.403
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
QUICK	-.223(**)	-.113(**)	-.227(**)	-.188(**)	.263(**)	1	-0.054	0.052	-.147(**)	-0.027	0.027	.067(*)	-0.053	-0.007	-.136(**)	-0.044	-0.035	-0.044	-0.044	-0.035	-0.046
	0	0	0	0	0	0	0.072	0.08	0	0.369	0.374	0.025	0.078	0.802	0	0.142	0.241	0.14	0.143	0.244	0.125
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
DE	.317(**)	.287(**)	-.156(**)	-.416(**)	-.465(**)	-.216(**)	1	-.101(**)	-0.023	0.022	.045	.072(*)	0.026	-0.004	-0.001	-0.025	.078(**)	0.013	0.043	0.025	0.001
	0	0	0	0	0	0	0	0.001	0.436	0.457	0.135	0.016	0.38	0.898	0.986	0.403	0.009	0.656	0.149	0.401	0.961
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
ROI	.272(**)	-.113(**)	.088(**)	-.341(**)	0.013	.120(**)	0.009	1	.070(*)	-.183(**)	-.121(**)	-.288(**)	.252(**)	-.248(**)	-0.006	-.101(**)	.078(**)	.077(*)	.080(**)	0.049	0.051
	0	0	0.003	0	0.666	0	0.761	0	0.019	0	0	0	0	0	0.841	0.001	0.009	0.01	0.007	0.104	0.089
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
FOREIGN	-.168(**)	-.132(**)	.410(**)	-.120(**)	-0.035	-.212(**)	0.029	0.042	1	0.031	-.242(**)	-.146(**)	0.007	0.028	.867(**)	-0.017	0.016	.245(**)	.213(**)	-.243(**)	-.176(**)
	0	0	0	0	0.244	0	0.328	0.162	0	0.306	0	0	0.818	0.341	0	0.577	0.599	0	0	0	0
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122
OPINION	-.141(**)	-0.04	-0.034	-.186(**)	0.038	-.101(**)	-.073(*)	-.169(**)	0.029	1	-0.015	-.186(**)	-.212(**)	-.171(**)	-0.005	-.078(**)	-.102(**)	-.061(*)	-.081(**)	-.060(*)	-0.03
	0	0.177	0.253	0	0.199	0.001	0.014	0	0.34	0	0.608	0	0	0	0.86	0.009	0.001	0.042	0.004	0.046	0.322
	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122	1.122

	LAF	SSUB	SCSUB	LTA	CATA	QUICK	DE	ROI	FOREIGN	OPINION	YE	LOSS	BIG4	HKTOP10	CHINA	AUDITOR (R1)	AUDITOR (R2)	AUDITOR (RS1)	AUDITOR (RS2)			
	(Pearson)																(RS1)					
YE	-.279**	0.041	-.215**	-.271**	.089**	.114**	0.008	-.116**	-.247**	-0.015	1	-.206**	-.112**	.087**	-.197**	-0.002	-.071**	-.100**	-.093**	-.138**	-.068**	
0	0.173	0	0	0	0.003	0	0.796	0	0	0.608	0	0	0.028	0	0.956	0.017	0.001	0.002	0	0	0.028	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
LOSS	-.412**	-.107**	-.280**	-.500**	.080**	0.03	-.093**	-.458**	-.153**	-.186**	.206**	1	-.354**	.284**	-.109**	-.178**	-.098**	-.173**	-.130**	-.170**	-.062**	
0	0	0	0	0	0.007	0.319	0.002	0	0	0	0	0	0	0	0	0	0.001	0	0	0	0	0.038
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
BIG4	.619**	-.243**	.238**	-.550**	-.162**	-.060**	-.178**	.279**	0.022	-.212**	-.112**	1	-.354**	1	-.822**	-.021	.368**	-.327**	.209**	-.195**	.260**	-.158**
0	0	0	0	0	0	0.044	0	0	0.467	0	0	0	0	0	0.462	0	0	0	0	0	0	0
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
HKTOP10	-.482**	-.188**	-.158**	-.441**	-.130**	0.033	-.130**	-.235**	0.022	-.171**	.067**	1	-.822**	1	0.029	-.289**	-.268**	-.165**	-.156**	-.205**	-.128**	
0	0	0	0	0	0	0.288	0	0	0.459	0	0.026	0	0	0	0.335	0	0	0	0	0	0	0
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
CHINA	.085**	-.109**	.475**	0.031	0.027	-.167**	0.041	-0.041	.631**	-0.005	-.197**	1	-.021	0.029	1	-0.058	0.051	.361**	-.299**	.357**	.281**	
0	0.004	0	0	0.307	0.365	0	0.169	0.17	0	0.86	0	0	0.462	0.335	0	0.05	0.087	0	0	0	0	0
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR(RS1)	.232**	.087**	.117**	-.191**	-0.01	0.02	0.018	.444**	-0.014	-.078**	-0.002	1	-.178**	.368**	-.299**	1	-.244**	0.048	.160**	.107**	.132**	
0	0.003	0	0	0	0.736	0.508	0.549	0	0.642	0.009	0.956	0	0	0	0.05	0	0.105	0	0	0	0	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR(RS2)	.226**	-.117**	.112**	-.201**	-.089**	-.089**	-.122**	.091**	0.02	-.102**	-.071**	1	-.098**	.327**	-.269**	1	-.244**	0.051	.223**	0.038	.203**	
0	0	0	0	0.003	0.003	0	0.002	0.512	0.001	0.017	0.001	0	0	0	0.087	0	0	0.205	0	0	0.519	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR(RS1)	.222**	.084**	.278**	-.171**	-0.017	-.090**	.065**	.125**	.234**	-.081**	-.100**	1	-.170**	.209**	-.165**	1	.223**	0.048	.160**	.107**	.132**	
0	0.031	0	0	0	0.579	0.003	0.029	0	0	0.042	0.001	0	0	0	0	0.105	0	0	0	0	0.51	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR(RS2)	.116**	-0.019	-.188**	-.101**	0.037	-0.013	0.037	.061**	.204**	-.087**	-.093**	1	-.130**	-.195**	-.156**	1	-.244**	0.051	.223**	0.038	.203**	
0	0.517	0	0	0.001	0.22	0.669	0.216	0.04	0	0.004	0.002	0	0	0	0	0	0.205	0	0	0	0	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR	.237**	0.039	.277**	-.182**	0.032	-.056	0.034	.070**	.228**	-.060**	-.138**	1	-.170**	.260**	-.205**	1	.203**	0.048	.160**	.107**	.132**	
(RS1)	0	0.19	0	0	0.277	0.062	0.254	0.019	0	0.046	0	0	0	0	0	0	0	0	0	0	0	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122
AUDITOR	.119**	.067**	-.155**	-.086**	0.023	-0.017	0.012	0.047	.166**	-0.03	-.068**	1	-.158**	-.128**	-.281**	1	.132**	0.051	.223**	0.038	.203**	
(RS2)	0	0.024	0	0.004	0.448	0.561	0.69	0.119	0	0.322	0.028	0	0	0	0	0	0.519	0.51	0	0	0	
1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122	1,122

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

5.3 Extent of Specialization

The following tables show the extent of the different types of specialization examined in this study and which audit firms are specialists in different aspects across the three-year period from 2004 to 2006. Tables 5.3a to 5.3f show similar information about industry specialization using the two industry classification systems and defining methods applied in this study. Table 5.3g summarizes regional city specialization results; tables 5.3h and 5.3i provide information that illustrates the combined specialization concept (i.e. regional city-industry specialization). Finally, table 5.3j gives an overview of the number of clients audited by specialists as opposed to non-specialists in all three areas and under different classification systems. The results are summarized and discussed in detail in sections 5.3.1 to 5.3.4 below.

5.3.1 Test of Industry Specialization

This section describes the results of whether industry specialization exists in Hong Kong SAR. This is tested by examining the number of industries that are associated with specialist audit firms defined by the alternative definitions used for this study. Both the ranking and benchmark defining methods are tested and for the benchmark method, predetermined benchmarks of 20% and 40% are tested to allow for comparison to see whether industry specialization results are sensitive to different benchmarks. Audit firms that are either ranked 1st or 2nd in the industry according to the various definitions are defined as industry specialists in this study. The names of the industry specialists (audit firms), which are the results from the AUDITOR(I1) and AUDITOR(I2) variables are also stated.

The primary defining method used in this study is the ranking method. The results from using the ranking method are presented in tables 5.3a and 5.3b below. Table 5.3a displays industry specialization in Hong Kong using the HSIC; it clearly shows that PWC is the audit firm that is defined as an industry specialist in the greatest number of industries, followed by DTT, KPMG and EY. Although KPMG and EY are specialists in the same number of industries

(i.e. 3), EY is not a first rank leader in any industry, indicating KPMG is actually more dominant in terms of audit fees received and market share it possesses. In 2005, the only change was KPMG becoming fourth out of the Big 4 regarding industry specialization. It is only a specialist in two industries. However in 2006, the same ranking resumed. EY and KPMG are third equal as in 2004 again. An important point to note regarding non-Big 4 industry specialist is that CCIF is the only non-Big 4 audit firm that is a specialist in one industry for the entire three year period.

From tables 5.3a and 5.3b, it is clear that some first ranked industry specialists are more dominant in terms of the proportion of total audit fees they receive compared to some other specialists of other industries. For example, PWC receives 84.26% of total audit fees in the Mining and Quarrying industry (HSIC 2) as opposed to DTT being the first ranked industry specialist in the construction industry (HSIC 5), where it receives only 26.7% of total audit fees. Furthermore, the proportion of total audit fees that first ranked industry specialists receive is relatively stable over the three years. For most industries, the changes are within 20% but there are exceptions too. For example, in the Agriculture and Fishing industry, CCIF was the first ranked specialist for the three years. It received 96.86% of the total audit fees in 2004 and 90.58% in 2005 but in 2006, it only received 69.92%. The main reason for this is because there was a change of ranking of the audit firms that led to a different second ranked specialist. It changed from DTT to EY and the proportion of audit fees received by EY significantly increased from 3.14% in 2004 (9.42% in 2005) to 25.79%, which was much higher than the previous two years.

Table 5.3a
Extent of Industry Specialization for 2004 to 2006 using HSIC & Ranking Method

HSIC	Industry Name	n	2004 (n = 1,034)				2005 (n = 1,099)				2006 (n = 1,142)								
			Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees
1	Agriculture and Fishing	4	4.217	CCIF	96.86	DTT	3.14	4	6.008	CCIF	90.58	DTT	9.42	6	9.007	CCIF	69.92	EY	25.79
2	Mining and Quarrying	7	48.505	PWC	84.26	EY	12.69	9	630.083	PWC	77.28	EY	17.61	18	335.695	PWC	84.62	EY	10.22
3	Manufacturing	280	382.647	DTT	33.61	PWC	25.03	303	535.974	DTT	34.18	PWC	21.44	316	672.811	DTT	27.97	PWC	24.78
4	Electricity, Gas and Water	33	75.067	PWC	53.16	DTT	19.48	32	133.229	PWC	64.47	DTT	18.23	35	140.541	PWC	62.06	DTT	16.40
5	Construction	192	395.937	DTT	26.7	KPMG	24.68	208	504.854	DTT	26.68	EY	23.09	203	539.041	DTT	25.46	PWC	25.09
6	Wholesale, Retail and Import/Export Trades, Restaurants and Hotels	85	140.986	PWC	36.25	DTT	25.41	92	190.072	PWC	34.82	DTT	27.16	96	263.186	PWC	43.83	DTT	26.65
7	Transport, Storage and Communication	117	533.774	PWC	71.64	KPMG	16.16	124	793.238	PWC	77.93	KPMG	11.77	125	971.646	PWC	72.58	KPMG	16.84
8	Financing, Insurance, Real Estate and Business Services	246	1200.958	KPMG	52.51	EY	18.6	257	1589.980	KPMG	63.61	PWC	19.31	273	2226.928	KPMG	43.01	PWC	25.18
9	Community, Social and Personal Services	70	83.494	PWC	45.38	EY	22.08	70	101.160	PWC	42.61	EY	22.94	70	181.254	PWC	48.80	DTT	19.22

Abbreviations:	Audit Firm	No. of Industry Leadership 1st Ranked	No. of Industry Leadership 2nd Ranked	Audit Firm	No. of Industry Leadership 1st Ranked	No. of Industry Leadership 2nd Ranked	Audit Firm	No. of Industry Leadership 1st Ranked	No. of Industry Leadership 2nd Ranked	
DTT	=Deloitte	DTT	2	3	DTT	2	3	DTT	2	3
EY	=Ernst & Young	EY	0	3	EY	0	3	EY	0	2
KPMG	=KPMG	KPMG	1	2	KPMG	1	1	KPMG	1	1
PWC	=PricewaterhouseCoopers	PWC	5	1	PWC	5	2	PWC	5	3
CCIF	=CCIF CPA Limited	CCIF	1	0	CCIF	1	0	CCIF	1	0
N/A	=Not Applicable	N/A	0	0	N/A	0	0	N/A	0	0

Table 5.3b also shows industry specialization information in Hong Kong using the NAICS classification system. Results indicate for 2004, DTT is the audit firm that specializes in most industries, followed by PWC, KPMG and EY. Although PWC is ranked second in terms of the number of total industries that it specializes in, it is the first rank leader in the same number of industries as DTT. Non-Big 4 audit firms are defined as specialists in two industries. Ranking remains the same in 2005 with PWC being a first rank leader in more industries than DTT. The overall ranking finally changes in 2006 with PWC becoming first, followed by DTT, KPMG and EY. Even though KPMG is still at third place, its number of specialized industries increased significantly from six to ten and it also reduced EY's number from three to just one. This is the same as CCIF and GT.

Under the HSIC, first ranked industry specialists are consistent over the three years for all industries. There are only changes for second ranked industry specialists, these industries include: Agriculture and Fishing (DTT to EY), Construction (KPMG to EY to PWC), Financing, Insurance, Real Estate and Business Services (EY to PWC). On the other hand, under the NAICS, there are changes in both first ranked and second ranked industry specialists. There are three industries with changes in first ranked industry specialists, which are the Mining industry (KPMG to PWC), the Management of Companies and Enterprises industry (DTT to PWC to DTT), and the Construction industry (DTT to PWC). For industries with changes in second ranked industry specialists include: Mining (DTT to KPMG), Construction (EY to PWC to DTT), Wholesale Trade (EY to DTT), Finance and Insurance (EY to PWC), Management of Companies and Enterprises (KPMG to DTT to KPMG), Health Care and Social Assistance (EY to PWC), Arts, Entertainment and Recreation (DTT to PWC to KPMG), Accommodation and Food Services (EY to DTT to KPMG), and Public Administration (HOMAN to KPMG). However, even though there are a number of changes among the industries, most of these only have very few client companies so the impact may be insignificant in real practice. The change of ranking was due to a small number of client companies switching audit firms, which is not very critical to the audit firm(s). For example, under NAICS, the Management of Companies

and Enterprises industry is interesting; PWC is the top specialist in 2005 only but not 2004 and 2006. This is caused by the company “Sinofert Holdings Limited” changing auditors from DTT to PWC and switch back to DTT again in 2006. The audit fees that PWC received from this company are about \$5.8 million, which is significant enough to make PWC the first ranked specialist in 2005. However, in 2006, the \$5.9 million audit fees are received by DTT instead so the ranking also changed accordingly. Also, under HSIC, the change in the second ranked specialist in the Agriculture and Fishing industry is due to Sungreen Holdings Limited’s auditor change from DTT to Shine Wing from 2005 to 2006 and a new company (China Blue Chemical Limited) is listed in 2006 and its auditor is EY so EY replaced DTT as the second ranked specialist in terms of the amount of total audit fees received. By both being second ranked, EY seemed to charge relatively high fees (audit fees charged to China Blue Chemical Limited is \$2.1m) because by auditing this new listed company, it is able to gain market share of 25.79% in 2006 while DTT only had 3.14% in 2004 and 9.42% in 2005 for being second ranked specialist. Even if DTT continue to audit Sungreen Holdings Limited, the audit fees reported in Sungreen’s 2006’s results are \$348,000 only. It is also interesting to note that in 2004 and 2005, the audit fees charged by DTT to Sungreen are \$132,000 and \$566,000 respectively. It is reasonable to expect a switch of auditors in 2006 by looking at the fees trend. DTT is charging a lot higher than the previous year (2005) and Shine Wing is able to provide audit services at a price lower (\$348,000) than DTT’s 2005’s price.

Table 5.3b
Extent of Industry Specialization for 2004 to 2006 using NAICS & Ranking Method

NAICS	Industry Name	n	2004 (n = 1,034)				n	2005 (n = 1099)				n	2006 (n = 1,142)						
			Total Audit Fees (\$m)	1st Ranked Firm	2nd Ranked Firm			Total Audit Fees (\$m)	1st Ranked Firm	2nd Ranked Firm			Total Audit Fees (\$m)	1st Ranked Firm	2nd Ranked Firm				
11	Agriculture, Forestry, Fishing and Hunting	2	3.435	CCIF	100.00	N/A	3	5.063	CCIF	90.70	PKF	9.30	2	5.144	CCIF	100.00	N/A		
21	Mining	11	139.377	KPMG	54.62	PWC	31.58	14	185.299	KPMG	55.49	PWC	28.79	16	316.824	PWC	44.32	KPMG	39.49
22	Utilities	22	69.659	PWC	57.13	DTT	28.81	23	134.217	PWC	64.80	DTT	24.13	23	180.533	PWC	62.41	DTT	24.22
23	Construction	28	40.078	DTT	46.20	EY	23.10	30	51.264	DTT	59.45	PWC	18.49	32	111.284	PWC	52.33	DTT	36.01
31-33	Manufacturing	439	641.669	DTT	33.00	EY	20.81	473	865.213	DTT	32.49	EY	24.44	497	1118.761	DTT	26.39	PWC	25.84
42	Wholesale Trade	38	52.762	PWC	45.64	EY	22.27	39	70.521	PWC	48.64	DTT	20.16	41	94.730	PWC	53.36	DTT	18.72
44-45	Retail Trade	31	53.929	DTT	42.10	PWC	34.65	36	81.834	DTT	43.91	PWC	30.89	34	100.308	DTT	42.40	PWC	29.91
48-49	Transportation and Warehousing	46	315.993	PWC	82.12	KPMG	9.86	51	510.594	PWC	86.85	KPMG	6.87	54	542.840	PWC	84.41	KPMG	7.25
51	Information	90	323.306	PWC	44.75	KPMG	34.15	91	381.768	PWC	50.52	KPMG	29.20	95	608.741	PWC	49.55	KPMG	32.45
52	Finance and Insurance	82	820.555	KPMG	64.80	EY	22.42	90	1181.858	KPMG	78.87	PWC	13.11	91	1672.281	KPMG	49.71	PWC	22.15
53	Real Estate and Rental and Leasing	103	263.004	PWC	54.26	DTT	23.77	106	284.298	PWC	52.41	DTT	26.43	108	365.512	PWC	52.29	DTT	23.01
54	Professional, Scientific, and Technical Services	58	40.181	DTT	42.10	PWC	15.96	58	42.136	DTT	44.55	PWC	19.34	58	52.805	DTT	45.17	PWC	16.48
55	Management of Companies and Enterprises	14	6.976	DTT	41.20	KPMG	21.42	15	13.295	PWC	43.79	DTT	15.75	16	16.436	DTT	50.42	KPMG	22.08
56	Administrative & Support and Waste Management and Remediation Services	20	23.975	EY	44.96	DTT	21.06	19	30.018	EY	45.82	DTT	18.73	17	27.219	EY	37.33	KPMG	20.83
61	Educational Services	1	0.889	KPMG	100.00	N/A		1	0.943	KPMG	100.00	N/A		1	0.105	KPMG	100.00	N/A	
62	Health Care and Social Assistance	5	3.463	DTT	41.13	EY	21.14	5	3.916	DTT	35.48	EY	21.57	6	7.620	DTT	36.84	PWC	20.04
71	Arts, Entertainment, and Recreation	7	7.458	PWC	58.82	DTT	37.66	7	8.59	DTT	48.21	PWC	39.77	8	23.501	PWC	49.18	KPMG	25.44
72	Accommodation and Food Services	31	47.873	KPMG	31.43	EY	23.66	32	55.764	KPMG	34.08	DTT	24.03	33	73.554	DTT	28.31	KPMG	26.41
81	Other Services (except Public Administration)	4	10.044	PWC	78.93	GT	21.07	4	10.289	PWC	85.60	GT	14.40	4	11.984	PWC	75.88	GT	11.54
92	Public Administration	2	0.959	DTT	100.00	N/A		2	0.718	HLB	55.43	HOMAN	44.57	6	9.336	DTT	82.96	KPMG	9.14

Abbreviations:	Audit Firm	No. of Industry Leadership	No. of Industry Leadership	Audit Firm	No. of Industry Leadership	No. of Industry Leadership	Audit Firm	No. of Industry Leadership	No. of Industry Leadership
		1st Ranked	2nd Ranked		1st Ranked	2nd Ranked		1st Ranked	2nd Ranked
<u>Big 4 Audit Firms</u>	<u>Big 4 Audit Firms</u>			<u>Big 4 Audit Firms</u>			<u>Big 4 Audit Firms</u>		
DTT	=Deloitte	7	4	DTT	6	6	DTT	7	4
EY	=Ernst & Young	1	5	EY	1	2	EY	1	0
KPMG	=KPMG	4	3	KPMG	4	2	KPMG	2	8
PWC	=PricewaterhouseCoopers	7	3	PWC	7	4	PWC	9	4
<u>Non-Big 4 Audit Firms</u>	<u>Non-Big 4 Audit Firms</u>			<u>Non-Big 4 Audit Firms</u>			<u>Non-Big 4 Audit Firms</u>		
CCIF	=CCIF CPA Limited	1	0	CCIF	1	0	CCIF	1	0
GT	=Grant Thornton	0	1	GT	0	1	GT	0	1
HLB	=HLB Hodgson Impey Cheng	0	0	HLB	1	0	HLB	0	0
HOMAN	=Homan CPA Limited	0	0	HOMAN	0	1	HOMAN	0	0
MR	=Moore's Rowland	0	0	MR	0	0	MR	0	0
PKF	=PKF International	0	0	PKF	0	1	PKF	0	0
N/A	=Not Applicable	0	3	N/A	0	1	N/A	0	2

Table 5.3c

Auditors defined as Industry Specialists using NAICS & 20% Market Share

Benchmark during 2004 to 2006

<u>NAICS Code</u>	<u>NAICS Industry</u>	<u>2004 (1st)</u>	<u>2004 (2nd)</u>	<u>2005 (1st)</u>	<u>2005 (2nd)</u>	<u>2006 (1st)</u>	<u>2006 (2nd)</u>
11	Agriculture, Forestry, Fishing & Hunting	CCIF	N/S	CCIF	N/S	CCIF	N/S
21	Mining	KPMG	PWC	KPMG	PWC	PWC	KPMG
22	Utilities	PWC	DTT	PWC	DTT	PWC	DTT
23	Construction	DTT	EY	DTT	N/S	PWC	DTT
31-33	Manufacturing	DTT	PWC	DTT	EY	DTT	PWC
42	Wholesale Trade	PWC	EY	PWC	DTT	PWC	N/S
44-45	Retail Trade	DTT	PWC	DTT	PWC	DTT	PWC
48-49	Transportation & Warehousing	PWC	N/S	PWC	N/S	PWC	N/S
51	Information	PWC	KMPG	PWC	KMPG	PWC	KMPG
52	Finance & Insurance	KPMG	EY	KPMG	N/S	KPMG	PWC
53	Real Estate & Rental Leasing	PWC	DTT	PWC	DTT	PWC	DTT
54	Professional, Scientific & Technical Services	DTT	N/S	DTT	N/S	DTT	N/S
55	Management of Companies' Enterprises	DTT	KPMG	PWC	N/S	DTT	KPMG
56	Administrative & Support & Waste Management & Redemption Services	EY	DTT	EY	N/S	EY	PWC
61	Educational Services	N/S	N/S	N/S	N/S	KPMG	N/S
62	Health Care & Social Assistance	DTT	EY	DTT	EY	DTT	PWC
71	Arts, Entertainment, & Recreation	PWC	DTT	DTT	PWC	PWC	KPMG
72	Accommodation & Food Services	KPMG	EY	KPMG	DTT	DTT	KPMG
81	Other Services (except Public Administration)	PWC	GT	PWC	N/S	PWC	N/S
92	Public Administration	DTT	N/S	HLB	HOMAN	DTT	N/S

Variable Definitions:

CCIF = CCIF CPA Limited

DTT = Deloitte Touche Tohmatsu

EY = Ernst & Young

GT = Grant Thornton

HLB = HLB Hodgson Impey Cheng

HOMAN = Homan CPA Limited

KPMG = KPMG

N/S = No specialist defined

PWC = PricewaterhouseCoopers

RSM = RSM Nelson Wheeler

SW = Shing Wing (HK) CPA Limited

Table 5.3d

**Auditors defined as Industry Specialists using HSIC & 20% market share
benchmark during 2004 to 2006**

<u>HSIC Code</u>	<u>HSIC Industry</u>	<u>2004 (1st)</u>	<u>2004 (2nd)</u>	<u>2005 (1st)</u>	<u>2005 (2nd)</u>	<u>2006 (1st)</u>	<u>2006 (2nd)</u>
1	Agriculture & Fishing	CCIF	N/S	CCIF	N/S	CCIF	EY
2	Mining & Quarrying	PWC	N/S	PWC	N/S	PWC	N/S
3	Manufacturing	DTT	PWC	DTT	PWC	DTT	PWC
4	Electricity, Gas & Water	PWC	N/S	PWC	N/S	PWC	N/S
5	Construction	DTT	KMPG	DTT	EY	DTT	PWC
6	Wholesale, Retail & Import/Export Trades, Restaurants & Hotels	PWC	DTT	PWC	DTT	PWC	DTT
7	Transport, Storage & Communication	PWC	N/S	PWC	N/S	PWC	N/S
8	Financing, Insurance, Real Estate & Business Services	KPMG	N/S	KPMG	N/S	KPMG	PWC
9	Community, Social & Personal Services	PWC	EY	PWC	EY	PWC	N/S

Variable Definitions:

CCIF	= CCIF CPA Limited
DTT	= Deloitte Touche Tohmatsu
EY	= Ernst & Young
KPMG	= KPMG
N/S	= No specialist defined
PWC	= PricewaterhouseCoopers

For the benchmark method, results from tables 5.3c and 5.3d indicate that all industries classified in the Hong Kong SAR market are associated with audit firm(s) that possesses 20% or more of market share except for the educational services industry as no such companies exist in the data in 2004 and 2005. Therefore, we can assume industry specialization is likely to exist in Hong Kong SAR using the 20% benchmark definition from the data examined. The 40% market share definition is also subsequently tested to determine if results differ based on different specialist definitions. It is reasonable to expect the number of specialists to reduce given a larger market share requirement. These are shown in Tables 5.3e and 5.3f below. Over the three years, at least three to four industries did not have any associated specialist if the 40% benchmark is set. This shows the number of industry specialists is certainly sensitive to the benchmark set and there is no fixed rule of setting this benchmark. Hence, to avoid the arbitrary setting of this benchmark, the new ranking method is adopted so that we do not have to worry about which percentage of market share to set as a benchmark before defining each specialist.

Furthermore, results of industry specialists slightly differ if the HSIC classification system is used. These are reported in Tables 5.3d and 5.3f. Results indicate that by using the NAICS 20% definition for industry specialists, DTT was ranked either 1st or 2nd in the most industries in 2004 (11 out of 20 industries) and 2005 (10 out of 20 industries). PWC was the next runner up with 10 out of 20 industries in 2004 and 9 out of 20 industries in 2005. However, the overall ranking of DTT and PWC switched over in 2006 (PWC ranked 1st or 2nd in 12 industries while DTT only had 10). Results show that the audit firms with the most industry specialists are the Big 4 for all three years. Under the HSIC 20% definition, PWC had the most industry specialists in all three years and DTT was second. The main difference from using the two classification systems was the inclusion of the second-tier firms to be industry specialists in the same number of industries as KPMG and EY in 2005 and 2006. These shows the Big 4 are not the only audit firms that can

specialize in particular industries, which is more consistent with the objective of this study.

If we compare the results from the listed tables with their stated specialization reported in Table 4.1 of the previous chapter, some of the industries match, for example, mining for PWC; finance and insurance for KPMG and EY. However, many other industries that audit firms claimed to be specialists did not match with the findings. For example, healthcare for PWC; retail trade for KPMG; and public administration by PWC. In fact, Horwath (a second-tier firm that claimed itself to be a specialist in many different industries) was found to be a specialist in none of the industries examined. This again reflects the need to clearly define industry specialization so that information users would not be mistaken by the audit firms because the audit firms' definition of industry specialization may be different from the definition that information users or the general public believe (e.g. an audit firm may consider itself to be an industry specialist because they have employees possessing relevant knowledge in the industry rather than holding a large market share of clients in the industry).

Table 5.3e

**Auditors defined as Industry Specialists using NAICS & 40% Market Share
Benchmark during 2004 to 2006**

<u>NAICS Code</u>	<u>NAICS Industry</u>	<u>2004 (1st)</u>	<u>2004 (2nd)</u>	<u>2005 (1st)</u>	<u>2005 (2nd)</u>	<u>2006 (1st)</u>	<u>2006 (2nd)</u>
11	Agriculture, Forestry, Fishing & Hunting	CCIF	N/S	CCIF	N/S	CCIF	N/S
21	Mining	KPMG	N/S	KPMG	N/S	PWC	N/S
22	Utilities	PWC	N/S	PWC	N/S	PWC	N/S
23	Construction	DTT	N/S	DTT	N/S	PWC	N/S
31-33	Manufacturing	N/S	N/S	N/S	N/S	N/S	N/S
42	Wholesale Trade	PWC	N/S	PWC	N/S	PWC	N/S
44-45	Retail Trade	DTT	N/S	DTT	N/S	DTT	N/S
48-49	Transportation & Warehousing	PWC	N/S	PWC	N/S	PWC	N/S
51	Information	PWC	N/S	PWC	N/S	PWC	N/S
52	Finance & Insurance	KPMG	N/S	KPMG	N/S	KPMG	N/S
53	Real Estate & Rental Leasing	PWC	N/S	PWC	N/S	PWC	N/S
54	Professional, Scientific & Technical Services	DTT	N/S	DTT	N/S	DTT	N/S
55	Management of Companies' Enterprises	DTT	N/S	PWC	N/S	DTT	N/S
56	Administrative & Support & Waste Management & Redemption Services	EY	N/S	EY	N/S	N/S	N/S
61 ⁴	Educational Services	N/S	N/S	N/S	N/S	KPMG	N/S
62	Health Care & Social Assistance	DTT	N/S	N/S	N/S	N/S	N/S
71	Arts, Entertainment, & Recreation	PWC	N/S	DTT	N/S	PWC	N/S
72	Accommodation & Food Services	N/S	N/S	N/S	N/S	N/S	N/S
81	Other Services (except Public Administration)	PWC	N/S	PWC	N/S	PWC	N/S
92	Public Administration	DTT	N/S	HLB	HOMAN	DTT	N/S

Variable

Definitions:

- CCIF = CCIF CPA Limited
- DTT = Deloitte Touche Tohmatsu
- EY = Ernst & Young
- GT = Grant Thornton
- HLB = HLB Hodgson Impey Cheng
- HOMAN = Homan CPA Limited
- KPMG = KPMG
- N/S = No specialist defined
- PWC = PricewaterhouseCoopers

Table 5.3f**Auditors defined as Industry Specialists using HSIC & 40% Market Share
Benchmark during 2004 to 2006**

HSIC Code	HSIC Industry	2004 (1st)	2004 (2nd)	2005 (1st)	2005 (2nd)	2006 (1st)	2006 (2nd)
1	Agriculture & Fishing	CCIF	N/S	CCIF	N/S	CCIF	N/S
2	Mining & Quarrying	PWC	N/S	PWC	N/S	PWC	N/S
3	Manufacturing	N/S	N/S	N/S	N/S	N/S	N/S
4	Electricity, Gas & Water	PWC	N/S	PWC	N/S	PWC	N/S
5	Construction	N/S	N/S	N/S	N/S	N/S	N/S
6	Wholesale, Retail & Import/Export Trades, Restaurants & Hotels	N/S	N/S	N/S	N/S	PWC	N/S
7	Transport, Storage & Communication	PWC	N/S	PWC	N/S	PWC	N/S
8	Financing, Insurance, Real Estate & Business Services	KPMG	N/S	KPMG	N/S	KPMG	N/S
9	Community, Social & Personal Services	PWC	N/S	PWC	N/S	PWC	N/S

Variable Definitions:

CCIF = CCIF CPA Limited

DTT = Deloitte Touche Tohmatsu

EY = Ernst & Young

KPMG = KPMG

N/S = No specialist defined

PWC = PricewaterhouseCoopers

5.3.2 Test of Regional City Specialization

This section presents the results that show whether regional city specialization exists in Hong Kong SAR based on the market share held by each audit firm in each regional city. Table 5.3g summarizes the results of regional city specialization from 2004 to 2006. Again, an audit firm is defined as a regional city specialist if it is either largest or second to largest market share (i.e. proportion of total audit fees) in the regional city. A total of 91 cities are reviewed from the data collected. The ranking by the number of regional cities that the Big 4 are specialists in 2004 is PWC first, followed by DTT, EY and KPMG. The non-Big 4 audit firms are specialists in 28 of the industries examined. There is total of 626 client firms audited by regional city specialists during 2004. There is a significant gap between the first ranked audit firm and the fourth ranked audit firm. 708 client firms are audited by regional city specialists in 2005 and there is a small change in the ranking of the Big 4. DTT and PWC swapped their ranks while KPMG's number of first rank leadership also dropped significantly. The number of client firms audited by regional city specialists continues to increase over the three year period. The number increases to 729 in 2006 but the ranking of the Big 4 remains as in 2005. One interesting change is that the number of first rank leadership is the same for both DTT and EY and the number of first rank leadership for KPMG gets back to a normal level of twelve. Most of the changes took place in 2005 and the pattern becomes normal again in 2006 (i.e. similar to 2004). This is consistent with the economic fluctuations in Hong Kong due to post SARS effects and the market consequences of the economic downturn.

The number of client firms in each regional city varies and those with more than twenty client firms are considered as the major cities and would be worthwhile to further discuss. Cities with less than five client firms are excluded later on in the study when defining regional city specialists for regression analyses as most of these cities do not trigger much competition among audit firms (e.g. a city with 1 client firm will only involve one audit firm and that audit firm will immediately become a top specialist) and it would be inappropriate to define audit firms auditing one or two companies within a

city to be specialists. Therefore, these smaller cities are excluded from the sample. This is similar to Francis et al. (2006) and Basioudis and Francis (2007), where they excluded cities with less than two observations and ended up with 77 and 39 cities respectively after the deletions. Another study, Ferguson et al. (2003) adopted a different method. They excluded 38 client companies located in smaller regional cities where they are audited by offices of audit firms in their locales. This study uses a method of excluding regional cities with less than five client firms instead of two because in this research setting, the number of cities with less than two or five client firms do not differ significantly and the number of cities involved is quite large (91 cities). Also, the smaller number of client firms, the more difficult it would be to reflect the difference between the first and second ranked specialists.

There are five major cities with more than 20 client firms in 2004 and 2005, including: Beijing, Dongguan, Guangzhou, Shanghai and Shenzhen. Fujian also became a major city with 20 client firms in 2006, giving a total of 6 major cities in 2006. For most cases, the first and second ranked regional city specialists are stable in these major cities but for Dongguan and Shanghai, frequent changes are seen. For Dongguan, DTT managed to be the top specialist in 2004 and 2005 but it dropped to second place in 2006 due to two new China-involved client companies (Nine Dragons Paper (Holdings) Limited and Meadville Holdings Limited) that are audited by PWC. Shanghai also has an interesting situation, where the second ranked specialist changed from KPMG to EY and then to DTT. The first change from KPMG to EY in 2005 is due to two new China-involved client companies (Ping An Insurance (Group) Company of China, Ltd. and Shanghai Electric Group Co. Ltd.) that became EY's clients and also South China Holdings Limited switched their auditor from DTT to EY in 2005. These three companies created additional audit fee revenue of HK\$41.2 million for EY. With regards to the second change from EY to DTT in 2006, it is also mainly due to two new China-involved client companies (Hong Kong Parkview Group Ltd and Shui On Land Limited) that created additional audit fee revenue of HK\$6.2 million and generally, audit fees received from existing clients increased by

about 20 to 30 percent in 2006 for DTT, which pushed its ranking to second place.

From the results, it is noticeable that some audit firms are gaining more market share over time while some are losing it. For example, in Beijing, PWC has 37%, 32% and then 60% in 2006; DTT in Dongguang has 62%, 63% and then 28% and in the final year, DTT's ranking also changed from first to second. Moreover, EY and DTT in Shenzhen seem to have similar market shares while the top specialist in Tianjin changes from year to year so it is interesting to test whether the specialists in these large regional cities obtain a premium over the other audit firms. The supplementary results from testing the large cities individually indicate that these specialists do not get any fee premiums alone except a slightly significant premium is detected in 2005 ($p < 0.018$) and 2006 ($p < 0.023$) for the second ranked specialist in Beijing, which is KPMG. No other significant results are found.

Table 5.3g
Extent of Regional City Specialization for 2004 to 2006

Panel A: by city

Regional City	2004 (n = 626)						2005 (n = 708)						2006 (n = 729)					
	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees
Anhui	6	9.367	EY	51.23	PWC	38.00	6	10.930	PWC	44.47	EY	44.19	6	14.803	EY	39.21	KPMG	23.96
Bao An	1	0.780	EY	100.00	N/A		1	0.818	EY	100.00	N/A		1	0.918	EY	100.00	N/A	
Beijing	93	276.740	PWC	36.75	KPMG	28.89	106	378.472	PWC	31.92	KPMG	29.89	109	817.189	PWC	59.89	KPMG	17.08
Buji	1	1.144	MR	100.00	N/A		1	1.337	MR	100.00	N/A		1	2.088	MR	100.00	N/A	
Changchun	1	2.789	KPMG	100.00	N/A		1	3.539	KPMG	100.00	N/A		1	0.438	RSM	100.00	N/A	
Changsha	0	N/A	N/A		N/A		1	1.338	KPMG	100.00	N/A		1	1.440	KPMG	100.00	N/A	
Changzhou	1	0.517	PWC	100.00	N/A		1	1.338	PWC	100.00	N/A		1	0.777	PWC	100.00	N/A	
Chengdu	4	4.351	HH	66.51	PWC	33.49	4	4.492	PWC	48.72	HH	31.39	3	4.576	PWC	33.99	SW	33.06
Chongqing	4	6.643	DTT	47.09	PWC	37.86	6	9.062	PWC	47.85	DTT	40.01	7	13.253	EY	28.58	PWC	27.21
Dalian	2	2.243	PWC	79.53	DTT	20.47	2	1.686	PWC	57.30	BDO	42.70	4	7.833	DTT	48.59	PWC	32.17
Daming	1	2.350	PWC	100.00	N/A		1	3.004	PWC	100.00	N/A		1	3.504	PWC	100.00	N/A	
Dongguan	42	62.158	DTT	64.27	PWC	10.17	44	81.843	DTT	63.66	PWC	14.51	42	68.826	PWC	30.20	DTT	28.03
Feng Gang	1	0.550	PWC	100.00	N/A		1	0.660	PWC	100.00	N/A		1	0.780	PWC	100.00	N/A	
Foshan	1	0.721	PWC	100.00	N/A		1	0.940	KPMG	100.00	N/A		1	4.789	KPMG	100.00	N/A	
Fujian	15	13.777	PWC	35.86	CCIF	12.70	18	21.172	PWC	49.66	DTT	13.62	20	32.385	PWC	52.64	DTT	19.65
Fuqiang	1	0.560	CCIF	100.00	N/A		0	N/A	N/A		N/A		0	N/A	N/A		N/A	
Fuqing	1	0.453	CCIF	100.00	N/A		2	1.903	KPMG	70.82	CCIF	29.18	2	2.500	KPMG	78.91	CCIF	21.09
Fuzhou	1	0.752	DTT	100.00	N/A		1	0.730	DTT	100.00	N/A		1	0.820	DTT	100.00	N/A	
Guangzhou	105	142.983	PWC	32.68	DTT	27.66	113	188.947	PWC	30.53	DTT	25.63	114	229.848	PWC	33.19	DTT	23.12
Gulin	2	3.438	PWC	69.81	DTT	30.19	2	4.044	PWC	71.71	DTT	28.29	2	5.147	PWC	73.83	DTT	26.17
Guiyang	0	N/A	N/A		N/A		1	5.822	PWC	100.00	N/A		1	5.949	DTT	100.00	N/A	
Guizhou	1	1.500	EY	100.00	N/A		1	1.934	EY	100.00	N/A		1	1.800	EY	100.00	N/A	
Hainan	1	1.992	PWC	100.00	N/A		1	2.290	PWC	100.00	N/A		1	2.325	PWC	100.00	N/A	
Haining	0	N/A	N/A		N/A		1	3.475	DTT	100.00	N/A		0	N/A	N/A		N/A	
Hangzhou	2	4.181	DTT	91.32	CCIF	8.68	5	6.059	PWC	53.55	DTT	32.81	7	13.746	PWC	27.84	DTT	24.55
Harbin	3	5.083	PWC	51.37	DTT	48.63	3	5.033	DTT	100.00	N/A		3	6.001	YUEHUA	44.00	DTT	31.37
Hebei	6	10.384	EY	62.89	DTT	30.86	7	14.109	DTT	45.68	EY	44.40	7	16.960	EY	53.13	DTT	21.73
Helongjiang	2	0.960	RSM	52.08	PWC	47.92	2	1.595	PWC	62.38	RSM	37.62	2	1.921	DTT	54.62	RSM	45.38
Henan	5	25.479	PWC	72.37	EY	12.90	6	45.537	PWC	76.04	KPMG	10.96	6	78.689	PWC	77.25	EY	6.21
Heyuan	2	4.203	DTT	66.07	KPMG	33.93	2	4.345	DTT	53.86	KPMG	46.14	2	5.153	KPMG	52.11	DTT	47.89

Regional City	n	2004 (n = 626)					2005 (n = 708)					2006 (n = 729)						
		Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees
Hubei	2	3.623	EY	75.16	DTT	24.84	2	4.549	EY	67.03	DTT	32.97	3	6.889	EY	47.42	DTT	29.03
Huiyang	2	9.000	EY	100.00	N/A		2	9.000	EY	100.00	N/A		2	10.000	EY	100.00	N/A	
Huizhou	5	9.430	DTT	47.52	EY	45.18	6	15.623	DTT	53.00	EY	43.86	4	11.182	EY	66.92	DTT	28.31
Hunan	4	57.045	PWC	94.70	GT	10.17	7	64.728	PWC	88.89	EY	8.25	9	136.825	PWC	90.22	EY	8.45
Inner Mongolia	2	1.870	EY	75.40	GT	24.60	2	2.626	EY	82.98	GT	17.02	3	5.676	EY	86.31	GT	13.69
Jiangmen	1	0.600	DTT	100.00	N/A		2	1.930	PWC	68.91	DTT	31.09	2	2.697	PWC	54.39	DTT	45.61
Jiangsu	12	27.503	PWC	53.62	DTT	24.51	13	39.586	PWC	43.49	DTT	27.58	15	70.261	PWC	35.91	EY	34.20
Jiangxi	3	5.141	DTT	86.52	EY	13.48	4	6.802	DTT	90.77	GT	5.80	4	8.388	DTT	92.62	GT	4.62
Jiangyin	0	N/A	N/A		N/A		0	N/A	N/A		N/A		1	1.104	DTT	100.00	N/A	
Jilin	4	5.852	EY	70.06	DTT	21.91	4	8.583	EY	77.63	DTT	16.44	5	11.194	EY	60.10	DTT	16.12
Jinan	1	4.488	KPMG	100.00	N/A		1	5.026	KPMG	100.00	N/A		1	7.712	KPMG	100.00	N/A	
Jining	1	0.400	KLL	100.00	N/A		1	0.338	SW	100.00	N/A		1	0.580	SW	100.00	N/A	
Jinzhou	1	2.174	DTT	100.00	N/A		1	2.645	DTT	100.00	N/A		1	1.280	WLLK	100.00	N/A	
Korla	1	0.548	CCIF	100.00	N/A		1	0.600	CCIF	100.00	N/A		1	0.598	CCIF	100.00	N/A	
Kunming	1	1.694	DTT	100.00	N/A		1	1.775	DTT	100.00	N/A		1	1.875	DTT	100.00	N/A	
Liaoning	2	3.967	PWC	79.18	KPMG	20.82	1	1.096	KPMG	100.00	N/A		1	1.329	KPMG	100.00	N/A	
Nanghai	1	0.500	MR	100.00	N/A		1	1.455	MR	100.00	N/A		0	N/A	N/A		N/A	
Nanjing	5	3.308	HORWATH	69.53	DTT	26.09	5	4.603	HORWATH	55.38	DTT	40.71	4	4.175	HORWATH	71.84	DTT	28.16
Ningbo	2	10.034	PWC	92.02	GT	7.98	3	12.354	PWC	89.39	GT	10.61	4	20.958	PWC	90.08	DTT	6.49
Panyu	2	3.323	DTT	66.21	MR	33.79	1	2.200	DTT	100.00	N/A		1	2.092	DTT	100.00	N/A	
Qianxi	1	2.401	PWC	100.00	N/A		1	2.880	PWC	100.00	N/A		1	3.288	PWC	100.00	N/A	
Qingdao	2	3.000	EY	70.00	PWC	30.00	4	9.528	EY	62.97	PWC	18.89	4	12.188	EY	63.18	PWC	19.54
Quanzhou	1	13.570	DTT	100.00	N/A		1	19.940	DTT	100.00	N/A		1	24.000	DTT	100.00	N/A	
Shaanxi	3	2.758	PWC	71.00	CCIF/HLB	29.00	2	1.094	HLB	64.90	CCIF	35.10	2	0.848	CCIF	52.85	HLB	47.15
Shajing	1	4.172	PWC	100.00	N/A		1	5.998	PWC	100.00	N/A		1	14.581	PWC	100.00	N/A	
Shandong	10	14.305	DTT	42.10	EY	25.43	12	156.178	KPMG	86.67	DTT	4.25	16	167.366	KPMG	79.78	DTT	7.87
Shangdi	1	1.250	EY	100.00	N/A		1	2.990	EY	100.00	N/A		1	3.150	EY	100.00	N/A	
Shanghai	87	205.439	PWC	41.89	KPMG	28.33	99	331.927	PWC	46.95	EY	17.40	103	710.673	PWC	45.67	DTT	29.12
Shantou	0	N/A	N/A		N/A		1	1.175	EY	100.00	N/A		2	2.734	EY	100.00	N/A	
Shanxi	3	1.060	GT	60.19	CCIF	39.81	3	1.210	GT	66.96	CCIF	33.04	4	4.264	DTT	69.59	GT	17.09
Shekou	1	1.428	EY	100.00	N/A		2	3.224	EY	53.10	PKF	46.90	2	3.261	EY	53.66	PKF	46.34
Shenyang	3	7.999	MR	61.87	DTT	38.13	3	6.665	MR	51.69	DTT	48.31	3	10.773	DTT	52.08	MR	47.92
Shenzhen	81	125.544	EY	30.13	DTT	29.91	90	177.754	EY	32.91	DTT	27.00	84	180.267	DTT	29.97	EY	26.24
Shishi	1	1.171	RSM	100.00	N/A		1	1.171	RSM	100.00	N/A		1	1.491	RSM	100.00	N/A	
Shunde	1	0.973	PWC	100.00	N/A		1	1.184	PWC	100.00	N/A		1	1.360	PWC	100.00	N/A	

Regional City	n	2004 (n = 626)					2005 (n = 708)					2006 (n = 729)						
		Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees	n	Total Audit Fees (\$m)	1st Ranked Firm	% of Total Audit Fees	2nd Ranked Firm	% of Total Audit Fees
Sichuan	1	0.911	HH	100.00	N/A		3	5.410	DTT	52.77	KPMG	28.23	3	9.275	DTT	80.90	KPMG	19.10
Suzhou	8	21.629	PWC	83.59	DTT	7.27	9	40.324	PWC	81.71	KPMG	12.23	8	9.066	KPMG	30.22	DTT	30.09
Taishan	0	N/A	N/A		N/A		0	N/A	N/A		N/A		1	1.000	DTT	100.00	N/A	
Tianjin	13	17.413	PWC	29.48	KPMG	18.69	12	20.545	MR	26.64	KPMG	24.00	13	33.274	KPMG	38.12	PWC	23.98
Tsingtao	1	5.644	PWC	100.00	N/A		1	5.645	PWC	100.00	N/A		1	6.278	PWC	100.00	N/A	
Wan Nan	2	0.965	GT	88.60	LLP	11.40	2	0.503	GT	77.46	LLP	22.54	2	0.550	GT	63.64	PNC	36.36
Wenshan	1	1.786	DTT	100.00	N/A		1	2.016	EY	100.00	N/A		1	2.591	EY	100.00	N/A	
Wenzhou	0	N/A	N/A		N/A		1	2.304	DTT	100.00	N/A		1	3.100	DTT	100.00	N/A	
Wu Bei	0	N/A	N/A		N/A		1	1.152	KPMG	100.00	N/A		1	3.069	KPMG	100.00	N/A	
Wuhan	2	6.662	KPMG	93.28	RSM	6.72	4	21.501	EY	66.97	KPMG	28.97	5	27.978	EY	64.11	KPMG	18.38
Wuhu	1	0.950	EY	100.00	N/A		1	1.250	EY	100.00	N/A		1	1.450	EY	100.00	N/A	
Wuxi	1	0.818	EY	100.00	N/A		1	1.100	EY	100.00	N/A		1	1.380	EY	100.00	N/A	
Xiamen	4	3.247	PWC	63.94	KPMG	21.59	5	6.056	PWC	72.85	KPMG	19.96	6	9.829	PWC	61.03	KPMG	34.08
Xian	2	1.173	DTT	41.74	HLB	33.84	4	3.164	PWC	53.65	CCIF	33.71	4	4.151	PWC	55.22	CCIF	37.08
Xinjiang	2	1.123	EY	73.91	WHT	26.09	3	1.980	EY	41.92	DTT	33.94	3	1.408	WHT	58.95	SW	41.05
Xuzhou	0	N/A	N/A		N/A		0	N/A	N/A		N/A		1	4.791	DTT	100.00	N/A	
Yan Ling	1	0.132	DTT	100.00	N/A		1	0.566	DTT	100.00	N/A		1	0.349	SW	100.00	N/A	
Yan Tai	1	1.595	KPMG	100.00	N/A		1	1.806	KPMG	100.00	N/A		1	1.873	KPMG	100.00	N/A	
Yangzhou	0	N/A	N/A		N/A		0	N/A	N/A		N/A		1	1.125	DTT	100.00	N/A	
Yanzhou	1	4.696	DTT	100.00	N/A		1	8.860	DTT	100.00	N/A		1	10.370	DTT	100.00	N/A	
Yunnan	1	0.700	DTT	100.00	N/A		2	1.713	DTT	56.22	HLB	43.78	3	3.541	GT	40.98	DTT	36.99
Zhangjiang	1	0.659	DTT	100.00	N/A		1	0.805	DTT	100.00	N/A		1	0.874	DTT	100.00	N/A	
Zhejiang	10	69.741	KPMG	84.84	PWC	9.24	9	74.936	KPMG	79.49	PWC	15.06	13	139.737	KPMG	83.14	PWC	9.58
Zheng Cheng	1	0.934	EY	100.00	N/A		1	1.159	EY	100.00	N/A		1	1.330	EY	100.00	N/A	
Zhengzhou	1	1.005	EY	100.00	N/A		2	2.770	EY	100.00	N/A		3	4.757	EY	100.00	N/A	
Zhenjiang	1	0.620	BDO	100.00	N/A		1	0.627	BDO	100.00	N/A		0	N/A	N/A		N/A	
Zhongshan	10	10.963	DTT	47.23	EY	31.31	12	17.892	DTT	45.41	EY	27.60	10	14.946	DTT	58.76	EY	23.53
Zuhai	4	5.814	MR	45.18	PWC	26.49	5	5.080	DTT	40.98	PWC	31.89	5	11.276	PWC	68.54	DTT	16.07

Panel B: by firm

Abbreviations:		Audit Firm (2004)	No. of Regional City Leadership			Audit Firm (2005)	No. of Regional City Leadership			Audit Firm (2006)	No. of Regional City Leadership		
			<u>1st Ranked</u>	<u>2nd Ranked</u>	<u>Total</u>		<u>1st Ranked</u>	<u>2nd Ranked</u>	<u>Total</u>		<u>1st Ranked</u>	<u>2nd Ranked</u>	<u>Total</u>
<u>Big 4 Audit Firms</u>													
DTT	=Deloitte	<u>Big 4 Audit Firms</u>				<u>Big 4 Audit Firms</u>				<u>Big 4 Audit Firms</u>			
EY	=Ernst & Young	DTT	20	12	32	DTT	20	14	34	DTT	20	19	39
KPMG	=KPMG	EY	17	5	22	EY	18	6	24	EY	20	5	25
PWC	=PricewaterhouseCoopers	KPMG	5	6	11	KPMG	10	9	19	KPMG	12	5	17
<u>Non-Big 4 Audit Firms</u>		PWC	25	8	33	PWC	28	3	31	PWC	24	5	29
CCIF	=CCIF CPA Limited	<u>Non-Big 4 Audit Firms</u>				<u>Non-Big 4 Audit Firms</u>				<u>Non-Big 4 Audit Firms</u>			
GT	=Grant Thornton	Others	16	12	28	Others	12	13	25	Others	13	12	25
HH	=Ho & Ho CPA Ltd												
HLB	=HLB Hodgson Impey Cheng												
HOMAN	=Homan CPA Limited												
MR	=Moores Rowland Mazars												
PKF	=PKF International												
PNC	=Patrick Ng & Co												
RSM	=RSM Nelson Wheeler												
SW	=Shing Wing (HK) CPA Limited												
WHT	=W.H. Tang & Partners CPA Ltd												
WLLK	=Wong Lam Leung & Kwok CPA Ltd												
YUEHUA	=Yuehua CPA Ltd												
N/A	=Not Applicable												

5.3.3 Test of Regional City-Industry Specialization

This third section relates to the two sections above. It aims to present the results that regional city-industry specialization exists in Hong Kong SAR based on the definitions applied in this study. These are presented in tables 5.3h and 5.3i. The tables suggest information about the combined specialization concept (i.e. regional city-industry specialization) examined in this study. The first table uses HSIC while the second table uses NAICS to define the industry specialization component. For the regional city specialization component, cities with less than five client firms are excluded in order to keep the number of regional cities examined at a manageable level. Therefore, the number of regional cities examined tends to differ across the three years since the number of client firms that require audit services in each regional city fluctuates over time. Regional city-industry specialists are defined as audit firms that specialize in an industry of a particular regional city and are either ranked first or second in terms of market share as for the other two types of specialization discussed above.

From table 5.3h, the ranking of the Big 4 is the same as for pure regional city specialization in 2004 with DTT being first, followed by PWC, EY and KPMG. However, PWC has a larger number of first rank leadership than DTT. There is also a significant number of 28 non-Big 4 regional city-industry specialists defined in 2004. In 2005 and 2006, the ranking of the Big 4 remains the same but the number of regional city-industry specialists for DTT and PWC increased more than any other audit firm. The number of non-Big 4 regional city-industry specialists remains constant during these two years.

Table 5.3h
Extent of Regional City-Industry Specialization for 2004 to 2006 defined using HSIC

Regional City - Industry	2004 (n=535)					2005 (n=603)					2006 (n=618)							
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
Anhui	6						6						6					
3 - Manufacturing	1	PWC	76.63	1	RSM	23.37	1	PWC	82.55	1	RSM	17.45	1	KPMG	47.91	1	DTT	39.34
5 - Construction	1	EY	78.72	1	PWC	21.28	1	EY	79.97	1	PWC	20.03	1	EY	76.12	1	PWC	23.88
6 - Wholesale, Retail & Import/Export Trades		N/A			N/A			N/A			N/A		1	EY	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	HLB	100.00		N/A		1	HLB	100.00		N/A			N/A			N/A	
9 - Community, Social & Personal Services	1	WHT	100.00		N/A		1	WHT	100.00		N/A			N/A			N/A	
Beijing	93						106						109					
2 - Mining & Quarrying	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	54.09	1	EY	45.91
3 - Manufacturing	5	EY	30.31	8	DTT	26.51	3	KPMG	38.47	8	EY	22.97	7	EY	38.41	5	DTT	23.88
4 - Electricity, Gas & Water	1	PWC	55.62	2	DTT	22.05	1	PWC	55.35	2	DTT	24.76	1	PWC	59.02	2	EY	29.05
5 - Construction	1	EY	37.78	2	DTT	28.81	1	KPMG	75.71	2	EY	10.39	5	PWC	96.78	1	JCC	1.35
6 - Wholesale, Retail & Import/Export Trades	2	PWC	37.29	3	DTT	34.76	2	EY	33.34	3	DTT	31.35	2	DTT	33.46	3	PWC	29.15
7 - Transport, Storage & Communication	4	EY	45.31	4	PWC	38.56	3	EY	36.16	4	PWC	25.88	2	EY	29.88	4	PWC	27.43
8 - Financing, Insurance, Real Estate & Business Services	4	PWC	33.08	5	DTT	31.55	5	EY	39.28	6	DTT	28.51	4	EY	32.19	7	DTT	30.72
9 - Community, Social & Personal Services	3	PWC	91.92	1	WHT	4.65	3	PWC	92.18	1	DTT	4.61	3	PWC	94.96	2	HLB	3.34
Chongqing	4						6						7					
3 - Manufacturing		N/A			N/A		1	DTT	39.37	1	PWC	16.83	1	DTT	43.86	1	PWC	38.72
5 - Construction		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
7 - Transport, Storage & Communication		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	DTT	100.00		N/A		1	EY	100.00		N/A	
9 - Community, Social & Personal Services		N/A			N/A			N/A			N/A		1	HLB	100.00		N/A	
Dongguan	42						44						42					
3 - Manufacturing	12	DTT	64.20	3	KPMG	12.68	11	DTT	63.71		PWC	11.36	5	PWC	31.64	8	DTT	29.47
5 - Construction	5	DTT	43.41	3	EY	26.25	7	DTT	53.72		EY	19.84	5	DTT	39.87	2	PWC	21.20
6 - Wholesale, Retail & Import/Export Trades	1	DTT	62.60	1	RSM	37.40	1	DTT	100.00		N/A		2	DTT	100.00		N/A	
7 - Transport, Storage & Communication		N/A			N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	PWC	76.69	1	MR	23.31	2	PWC	100.00		N/A		2	PWC	100.00		N/A	
9 - Community, Social & Personal Services	1	DTT	100.00		N/A			N/A			N/A			N/A			N/A	

Regional City - Industry	2004 (n=535)					2005 (n=603)					2006 (n=618)							
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
Fujian	15																	
1 - Agriculture & Fishing	1	CCIF	100.00		N/A		1	CCIF	100.00		N/A		1	PWC	54.19	1	CCIF	45.81
2 - Mining & Quarrying	1	PWC	100.00		N/A		1	PWC	100.00		N/A			N/A			N/A	
3 - Manufacturing	2	DTT	49.39	1	EY	33.38	3	DTT	58.41	2	CCIF	20.95	2	DTT	56.03	1	EY	23.15
4 - Electricity, Gas & Water	1	GT	100.00		N/A		1	GT	100.00		N/A		1	GT	100.00		N/A	
5 - Construction	1	EY	49.30	1	CCIF	32.70	1	PWC	64.04	1	EY	15.27	1	PWC	77.77	1	EY	11.16
6 - Wholesale, Retail & Import/Export Trades	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	51.56	2	DTT	48.44
7 - Transport, Storage & Communication		N/A			N/A			N/A			N/A		1	CCIF	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	PWC	47.15	1	KPMG	40.71	1	PWC	47.80	1	RSM	36.15	1	PWC	55.11	1	RSM	28.36
Guangzhou	105																	
2 - Mining & Quarrying	1	KPMG	100.00		N/A		1	KPMG	100.00		N/A			N/A			N/A	
3 - Manufacturing	18	DTT	44.85	3	KPMG	16.11	13	DTT	39.63	6	EY	19.81	12	DTT	29.10	4	PWC	19.95
4 - Electricity, Gas & Water	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	KPMG	61.88	1	PWC	38.12
5 - Construction	6	PWC	38.19	7	DTT	36.55	6	PWC	36.95	4	DTT	17.37	5	PWC	36.70	5	DTT	22.19
6 - Wholesale, Retail & Import/Export Trades	2	EY	19.04	2	PWC	8.08	4	EY	30.36	3	DTT	27.56	4	PWC	31.00	4	EY	25.32
7 - Transport, Storage & Communication	6	PWC	40.22	1	KPMG	38.57	1	KPMG	35.50	5	PWC	33.78	4	PWC	25.69	5	DTT	24.67
8 - Financing, Insurance, Real Estate & Business Services	4	PWC	44.03	4	DTT	32.40	6	PWC	56.40	3	DTT	26.92	6	PWC	64.29	3	DTT	20.30
9 - Community, Social & Personal Services	2	EY	58.30	1	PWC	26.44	3	EY	41.54	1	DTT	37.42	1	DTT	37.54	2	EY	29.09
Hangzhou	2																	
3 - Manufacturing		N/A			N/A		1	DTT	70.60	1	RSM	29.40	2	DTT	85.04	1	RSM	14.96
5 - Construction		N/A			N/A		1	PWC	79.74	1	DTT	20.26	1	PWC	88.90	1	SW	11.10
7 - Transport, Storage & Communication		N/A			N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
Hebei	6																	
1 - Agriculture & Fishing	1	CCIF	100.00		N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	
2 - Mining & Quarrying	1	EY	100.00		N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	
3 - Manufacturing	1	EY	58.43		DTT	41.57	2	DTT	51.93	1	EY	48.07	2	DTT	51.29	1	EY	48.71
4 - Electricity, Gas & Water	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	KPMG	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	RSM	100.00		N/A		1	CCIF	100.00		N/A	
Henan	5																	
2 - Mining & Quarrying	1	N/A			N/A		1	KPMG			N/A		1	KPMG	100.00		N/A	
3 - Manufacturing	1	PWC	100.00		N/A		1	PWC			N/A		1	MCKP	100.00		N/A	

Regional City - Industry	2004 (n=535)					2005 (n=603)					2006 (n=618)							
	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
5 - Construction	1	EY	57.37	1	KPMG	42.63	1	EY	52.90	1	KPMG	47.10	1	EY	50.57	1	THK	49.43
7 - Transport, Storage & Communication	1	PWC	100.00		N/A		1	PWC	100.00		N/A			N/A			N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	DTT	100.00		N/A		1	DTT	100.001		N/A		1	DTT	100.00		N/A	
Huizhou	5						6						4					
3 - Manufacturing	1	DTT	71.93	1	RSM	15.93	1	DTT	87.20	1	EY	8.12		N/A			N/A	
6 - Wholesale, Retail & Import/Export Trades	1	EY	100.00		N/A		1	EY	100.00		N/A			N/A			N/A	
7 - Transport, Storage & Communication		N/A			N/A		1	DTT	100.00		N/A			N/A			N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	RSM	100.00		N/A		1	RSM	100.00		N/A			N/A			N/A	
Hunan	3						7						9					
2 - Mining & Quarrying		N/A			N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	
5 - Construction		N/A			N/A		1	EY	90.95	1	CCIF	9.05	2	EY	75.18	1	PWC	24.82
7 - Transport, Storage & Communication		N/A			N/A		1	GT	100.00		N/A		1	GT	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	DTT	72.62	1	HORWATH	27.38	2	DTT	100.00		N/A	
Jiangsu	12						13						15					
3 - Manufacturing	1	PWC	39.35	1	CCIF	32.17	1	KPMG	66.45	1	PWC	22.47	2	DTT	41.40		KPMG	41.72
4 - Electricity, Gas & Water		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
5 - Construction	2	DTT	77.41	1	EY	13.23	2	DTT	54.74	1	KPMG	25.37	2	EY	64.90		DTT	25.64
7 - Transport, Storage & Communication	2	DTT	100.00		N/A		2	DTT	100.00		N/A		1	DTT	84.02		CACHET	15.98
8 - Financing, Insurance, Real Estate & Business Services	1	PWC	94.83	1	DTT	5.17	1	PWC	96.00	1	DTT	4.00	1	PWC	91.78		DTT	8.22
Jilin	4						4						5					
3 - Manufacturing		N/A			N/A			N/A			N/A		1	EY	76.72	1	PWC	18.18
5 - Construction		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
9 - Community, Social & Personal Services		N/A			N/A			N/A			N/A		1	HLB	100.00		N/A	
Nanjing	5						5						4	N/A			N/A	
3 - Manufacturing	1	DTT	100.00		N/A		1	DTT	100.00		N/A			N/A			N/A	
5 - Construction	1	HORWATH	100.00		N/A		1	HORWATH	100.00		N/A			N/A			N/A	
6 - Wholesale, Retail & Import/Export Trades		N/A			N/A		1	DTT	100.00		N/A			N/A			N/A	
7 - Transport, Storage & Communication	1	HLB	100.00		N/A		1	HLB	100.00		N/A			N/A			N/A	
8 - Financing, Insurance, Real Estate & Business Services	1	DTT	100.00		N/A			N/A	100.00		N/A			N/A			N/A	
9 - Community, Social & Personal Services	1	HORWATH	100.00		N/A		1	HORWATH	100.00		N/A			N/A			N/A	
Shandong	10						12						16					
1 - Agriculture & Fishing	1	CCIF	100.00		N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	

Regional City - Industry	2004 (n=535)					2005 (n=603)					2006 (n=618)							
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
2 - Mining & Quarrying		N/A			N/A			N/A			N/A	2	EY	100.00			N/A	
3 - Manufacturing	1	EY	90.01	1	HORWATH	9.99	1	EY	67.83	2	PWC	28.31	1	EY	55.20	2	PWC	38.01
4 - Electricity, Gas & Water	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
5 - Construction	1	DTT	49.55	1	EY	23.14	1	DTT	51.16	1	THKC	25.19	1	DTT	68.14	1	SW	14.77
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	KPMG	100.00		N/A		1	DTT	100.00		N/A	
9 - Community, Social & Personal Services	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
Shanghai	87						99					103						
2 - Mining & Quarrying	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
3 - Manufacturing	4	PWC	28.39	2	EY	22.85	9	DTT	33.23	4	PWC	31.57	5	PWC	41.57	9	DTT	27.66
4 - Electricity, Gas & Water	1	PWC	83.24	1	CCIF	16.76	1	PWC	100.00		N/A		1	PWC	100.00		N/A	
5 - Construction	4	PWC	52.64	4	DTT	19.26	5	EY	40.28	5	PWC	35.78	6	PWC	44.20	5	EY	32.01
6 - Wholesale, Retail & Import/Export Trades	1	PWC	39.71	1	MS	16.60	1	PWC	42.36	2	DTT	37.36	1	PWC	50.41	1	DTT	29.32
7 - Transport, Storage & Communication	5	PWC	61.73	2	DTT	9.72	4	PWC	69.67	1	GT	7.03	4	PWC	89.70	1	GT	4.52
8 - Financing, Insurance, Real Estate & Business Services	2	KPMG	46.45	3	PWC	38.54	6	PWC	54.59	5	EY	71.22	5	PWC	66.24	1	EY	20.14
9 - Community, Social & Personal Services	4	DTT	49.63	1	RSM	44.32	4	DTT	51.90	1	RSM	25.84	1	RSM	35.26	1	CCIF	24.20
Shenzhen	81						90					84						
3 - Manufacturing	11	DTT	46.44	3	EY	12.97	11	DTT	48.89	5	PWC	18.06	7	DTT	42.07	4	EY	17.26
4 - Electricity, Gas & Water	1	DTT	88.31	1	HLB	11.69	1	DTT	92.86	1	HLB	7.14	2	DTT	96.01	1	HLB	3.99
5 - Construction	14	DTT	43.49	3	EY	26.89	4	EY	36.34	11	DTT	25.24	6	EY	28.74	5	DTT	18.74
6 - Wholesale, Retail & Import/Export Trades	1	EY	78.95	1	KLL	21.05	1	HLB	75.38	1	KLL	24.62	1	HLB	67.04	1	SW	32.96
7 - Transport, Storage & Communication	2	EY	47.43	2	PWC	17.12	2	PWC	44.69	3	EY	38.53	2	EY	43.72	2	PWC	26.98
8 - Financing, Insurance, Real Estate & Business Services	2	EY	44.57	4	PWC	34.92	5	PWC	41.83	1	EY	36.26	3	DTT	35.80	4	PWC	20.91
9 - Community, Social & Personal Services	1	EY	90.90	1	DTT	9.10	1	EY	91.22	1	DTT	8.78	1	EY	78.68	1	DTT	14.43
Suzhou	8						9					8						
3 - Manufacturing	2	EY	62.20		DTT	20.75	2	EY	50.42	2	DTT	37.78	2	EY	46.47	2	DTT	43.62
4 - Electricity, Gas & Water	1	PWC	100.00		N/A		1	PWC	100.00		N/A			N/A			N/A	
5 - Construction	1	PWC	100.00		N/A		1	KPMG	100.00		N/A		1	KPMG	100.00		N/A	
7 - Transport, Storage & Communication	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
9 - Community, Social & Personal Services	1	GT	100.00		N/A		1	GT	100.00		N/A		1	GT	100.00		N/A	
Tianjin	13						12					13						
3 - Manufacturing	1	MR	34.16	3	PWC	29.91	1	MR	32.93	2	KPMG	29.72	3	PWC	43.70	1	MR	34.41
4 - Electricity, Gas & Water	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	

Regional City - Industry	2004 (n=535)					2005 (n=603)					2006 (n=618)							
	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	Ist Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
5 - Construction	1	DTT	41.04	1	PWC	33.91	1	PWC	41.57	1	DTT	35.93	1	PWC	37.25	1	DTT	36.91
7 - Transport, Storage & Communication		N/A			N/A			N/A			N/A		1	KPMG	100.00		N/A	
Wuhan	2						4						5					
3 - Manufacturing		N/A			N/A			N/A			N/A		1	EY	79.90	1	DTT	17.44
5 - Construction		N/A			N/A			N/A			N/A		1	KPMG	100.00		N/A	
7 - Transport, Storage & Communication		N/A			N/A			N/A			N/A		1	MR	100.00		N/A	
Xiamen	3						5						6					
3 - Manufacturing		N/A			N/A		2	PWC	100.00		N/A		2	PWC	55.38	1	KPMG	44.62
7 - Transport, Storage & Communication		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	KPMG	73.54	1	CCIF	26.46	1	KPMG	76.92	1	CCIF	23.08
Zhejiang	10						9						13					
3 - Manufacturing	1	PWC	54.78	3	DTT	29.24	2	PWC	80.89	2	DTT	12.94	2	PWC	65.89	1	KPMG	13.53
5 - Construction	1	EY	54.60	1	PWC	45.40	1	DTT	54.62	1	PWC	45.38	1	DTT	49.86	1	PWC	39.39
6 - Wholesale, Retail & Import/Export Trades	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
7 - Transport, Storage & Communication	1	KPMG	99.47	1	DTT	0.53	1	KPMG	99.36	1	DTT	0.64	1	PWC	85.96	1	DTT	14.04
Zhongshan	10						12						10					
3 - Manufacturing	2	DTT	87.08	1	HORWATH	12.92	3	DTT	92.42	1	HORWATH	7.58	3	DTT	90.11	1	HORWATH	9.89
5 - Construction	1	EY	40.86	1	DTT	39.72	2	EY	39.55	1	DTT	24.93	2	EY	56.55	1	DTT	27.04
8 - Financing, Insurance, Real Estate & Business Services	1	LLC	100.00		N/A		1	LLC	100.00		N/A		1	LLC	100.00		N/A	
9 - Community, Social & Personal Services	1	EY	60.97	1	RSM	39.03	1	EY	65.68	1	RSM	34.32	1	EY	100.00		N/A	
Zuhai	4						5						5					
3 - Manufacturing		N/A			N/A			N/A			N/A		1	PWC	100.00		N/A	
5 - Construction		N/A			N/A		2	DTT	100.00		N/A		1	DTT	73.15	1	HLM	26.85
8 - Financing, Insurance, Real Estate & Business Services		N/A			N/A		1	PWC	65.32	1	EY	34.67	1	PWC	68.31	1	EY	31.69
9 - Community, Social & Personal Services		N/A			N/A		1	CCIF	100.00		N/A			N/A			N/A	

Audit Firm	2004			2005			2006		
	No. of Industry/Regional City Leadership - 1st Ranked	2nd Ranked	Total	No. of Industry/Regional City Leadership - 1st Ranked	2nd Ranked	Total	No. of Industry/Regional City Leadership - 1st Ranked	2nd Ranked	Total
<i>Big 4 Audit Firms</i>									
DTT	25	16	41	32	18	50	30	19	49
EY	20	7	27	18	11	29	21	11	32
KPMG	3	5	8	10	3	13	8	3	11
PWC	27	10	37	32	11	43	33	13	46
<i>Non-Big 4 Audit Firms</i>									
CACHET	0	0	0	0	0	0	0	1	1
CCIF	3	3	6	5	3	8	5	3	8
GT	2	0	2	3	1	4	3	1	4
HLB	2	1	3	3	1	4	3	2	5
HLM	0	0	0	0	0	0	0	1	1
HORWATH	2	2	4	2	2	4	0	1	1
JCC	0	0	0	0	0	0	0	1	1
KLL	0	1	1	0	1	1	0	0	0
LLC	1	0	1	1	0	1	1	0	1
MCKP	0	0	0	0	0	0	1	0	1
MR	1	1	2	1	0	1	1	0	1
MS	0	1	1	0	0	0	0	0	0
NCMF	0	0	0	0	0	0	0	0	0
RSM	1	5	6	2	5	7	1	2	3
SW	0	0	0	0	0	0	0	3	3
THKC	0	0	0	0	1	1	0	1	1
WHT	1	1	2	1	0	1	0	0	0

Abbreviations:

Big 4 Audit Firms

DTT	=Deloitte
KPMG	=KPMG
PWC	=PricewaterhouseCoopers
EY	=Ernst & Young

Non-Big 4 Audit Firms

BDO	=BDO McCabe Lo & Co.
BT	=Baker Tilly
CACHET	=Cachet CPA
CCIF	=CCIF CPA Limited
GHYC	=Graham H.Y. Chan & Co.
GT	=Grant Thornton
HLB	=HLB Hodgson Impey Cheng
HLM	=HLM & Co.
HH	=Ho & Ho CPA Ltd
HOMAN	=Homan CPA Limited
HOPKINS	=Hopkins CPA Ltd.
HORWATH	=Horwath HK CPA Limited
JCC	=Johnny Chan & Co. Ltd.
KLL	=KLL Associates CPA Ltd.
LLC	=Li, Lai & Cheung
MCKP	=Martin C.K. Pong & Co.
MR	=Moores Rowland Mazars
MS	=Moore Stephens
N/A	=Not Applicable
NCMF	=Nexia Charles Mar Fan & Co.
PNC	=Patrick Ng & Co
PKF	=PKF International
RSM	=RSM Nelson Wheeler
SW	=Shing Wing (HK) CPA Limited
THKC	=Ting Ho Kwan & Chan

WHT	=W.H. Tang & Partners CPA Ltd
WLLK	=Wong Lam Leung & Kwok CPA Ltd
YUEHUA	=Yuehua CPA Ltd

HSIC Industry

Name

- 1 Agriculture and Fishing
 - 2 Mining and Quarrying
 - 3 Manufacturing
 - 4 Electricity, Gas and Water
 - 5 Construction
 - 6 Wholesale, Retail and Import/Export Trades, Restaurants and Hotels
 - 7 Transport, Storage and Communication
 - 8 Financing, Insurance, Real Estate and Business Services
 - 9 Community, Social and Personal Services
-

Table 5.3i presents parallel information concerning regional city-industry specialization as in table 5.3h but the NAICS is used. Results are very similar with those that used the HSIC. The Big 4 ranking is the same as for HSIC in 2004 and 2006. There is a slight change of the Big 4 ranking in 2005 only, where PWC and DTT became first equal. Another interesting point is the fact that the number of non-Big 4 regional city-industry specialists is higher under the NAICS results for the three years, indicating there is a possibility that this industry classification system is more lenient when it is used for defining industry specialists. It may also reflect the reality that this system is not specifically tailored for Hong Kong companies, therefore, companies that belong to an industry classified under the NAICS may be classified differently under the HSIC so the resulting specialization results will mismatch. It is obviously more appropriate to rely more on the results when the HSIC is used because this system is specifically for Hong Kong companies and it should be able to classify Hong Kong companies best. However, it is certainly useful to see how results differ by comparing the two industry classification systems to investigate whether results are truly sensitive to these different systems.

Table 5.3i

Extent of Regional City-Industry Specialization for 2004 to 2006 defined using NAICS

Regional City - Industry	2004 (n=535)			2005 (n=603)			2006 (n=618)											
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
Anhui	6			6			6			6			6					
23 - Construction	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
31-33 - Manufacturing	1	EY	61.91	1	PWC	29.19	1	EY	52.20	1	PWC	39.46	1	EY	40.70	1	KPMG	28.41
42 - Wholesale Trade	1	WHT	100.00		N/A		1	WHT	100.00		N/A		1	EY	100.00		N/A	
51 - Information	1	HLB	100.00		N/A		1	HLB	100.00		N/A			N/A			N/A	
Beijing	93						106						109					
21 - Mining	1	PWC	84.53	1	JCC	2.20	2	KPMG	62.48	1	PWC	30.63	1	EY	100.00		N/A	
22 - Utilities	1	PWC	97.64	1	EY	2.36	1	PWC	100.00		N/A		1	PWC	100.00		N/A	
23 - Construction		N/A			N/A		1	EY	100.00		N/A			N/A			N/A	
31-33 - Manufacturing	8	DTT	32.77	4	EY	27.74	5	DTT	27.96	5	EY	26.78	7	PWC	30.10	6	EY	29.12
42 - Wholesale Trade	1	EY	77.35	1	PWC	12.63	1	EY	86.92	1	PWC	13.08	1	EY	88.55	1	PWC	11.45
44-45 - Retail Trade	1	EY	56.81	1	DTT	30.65	2	EY	46.64	2	DTT	34.17	2	EY	37.22	1	DTT	29.56
48-49 - Transportation & Warehousing	2	PWC	46.14	1	EY	43.17	1	EY	39.85	2	PWC	27.74	1	EY	35.70	2	PWC	32.28
51 - Information	1	PWC	55.86	3	EY	19.81	1	PWC	44.49	4	DTT	37.13	1	PWC	66.09	1	DTT	20.30
52 - Finance & Insurance	1	DTT	95.47	1	GHYC	4.53	1	EY	89.84	1	DTT	9.75	1	EY	75.39	1	KPMG	15.28
53 - Real Estate & Rental & Leasing	4	PWC	44.75	3	DTT	32.53	4	DTT	43.29	4	PWC	39.57	4	DTT	45.82	5	PWC	42.07
54 - Professional, Scientific & Technical Services	1	PWC	27.02	2	EY	15.12	4	DTT	26.69	3	EY	17.11	1	PWC	32.55	2	DTT	28.39
56 - Administrative Support & Waste Management & Redemption Services	2	PWC	69.42	1	EY	23.30	2	PWC	66.45	1	EY	28.38	2	PWC	74.16	1	RSM	17.58
71 - Arts, Entertainment & Recreation	1	GT	100.00		N/A		1	GT	100.00		N/A		1	GT	100.00		N/A	
72 - Accommodation & Food Services	1	PWC	51.13	1	EY	27.46	1	PWC	47.08	1	EY	29.48	1	PWC	57.71	1	EY	32.28
81 - Other Services (except Public Administration)	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
92 - Public Administration		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
Chongqing	4						6						7					
31-33 - Manufacturing		N/A			N/A		2	DTT	58.47	1	PWC	41.53	1	DTT	36.22	1	PWC	31.98
48-49 - Transportation & Warehousing		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
53 - Real Estate & Rental & Leasing		N/A			N/A		1	EY	56.41	1	PWC	43.59	1	PWC	68.35	1	EY	31.65
92 - Public Administration		N/A			N/A			N/A			N/A		1	HLB	100		N/A	
Dongguan	42						44						42					

Regional City - Industry	2004 (n=535)						2005 (n=603)						2006 (n=618)					
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
23 - Construction	1	EY	100.00		N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	
31-33 - Manufacturing	1	DTT	66.15	3	KPMG	11.61	17	DTT	65.21	5	PWC	13.22	12	DTT	29.35	7	PWC	27.90
42 - Wholesale Trade	1	DTT	51.68	1	RSM	48.32	1	DTT	100.00		N/A		1	DTT	100.00		N/A	
51 - Information	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
52 - Finance & Insurance	1	MR	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
53 - Real Estate & Rental & Leasing	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
55 - Management of Companies & Enterprises		N/A			N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
56 - Administrative Support & Waste Management & Redemption Services	1	DTT	100.00		N/A			N/A			N/A			N/A			N/A	
72 - Accommodation & Food Services	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
Fujian	15						18						20					
11 - Agriculture, Forestry, Fishing & Hunting	1	CCIF	100.00		N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	
21 - Mining	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
31-33 - Manufacturing	1	PWC	34.88	2	EY	22.64	2	PWC	51.48	3	DTT	17.40	2	PWC	58.37	3	DTT	19.39
48-49 - Transportation & Warehousing		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
51 - Information	1	KPMG	100.00		N/A		1	RSM	100.00		N/A		1	RSM	65.91	1	CCIF	34.09
53 - Real Estate & Rental & Leasing	1	PWC	78.28	1	NCFM	11.15	1	PWC	74.85	1	HLB	16.47	1	PWC	76.93	1	DTT	11.66
54 - Professional, Scientific & Technical Services		N/A			N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	
Guangzhou	105						113						114					
21 - Mining	1	KPMG	100.00		N/A		1	KPMG	100.00		N/A		1	KPMG	100.00		N/A	
22 - Utilities	1	EY	79.83	1	KPMG	20.17	1	EY	100.00		N/A		1	EY	100.00		N/A	
23 - Construction	3	DTT	67.75	1	PWC	23.18	1	DTT	44.62	1	PWC	38.25	1	DTT	61.26	1	PWC	38.74
31-33 - Manufacturing	21	DTT	36.26	10	PWC	27.69	16	DTT	29.28	10	PWC	24.03	11	PWC	29.91	16	DTT	23.25
42 - Wholesale Trade	1	EY	40.97	2	PWC	37.94	1	EY	35.76	2	PWC	32.59	1	EY	46.52	1	PWC	22.16
44-45 - Retail Trade	1	KPMG	30.83	1	DTT	28.61	2	DTT	37.35	2	EY	34.66	2	KPMG	37.69	2	EY	25.36
48-49 - Transportation & Warehousing	1	KPMG	63.07	2	PWC	23.05	3	KPMG	53.69	1	PWC	24.73	1	KPMG	52.82	3	PWC	28.45
51 - Information	5	PWC	64.35	2	DTT	28.57	3	PWC	61.23	1	DTT	24.83	2	DTT	47.31	2	PWC	37.47
52 - Finance & Insurance	1	DTT	100.00		N/A		1	PWC	61.38	1	KPMG	38.62	1	PWC	50.19	1	DTT	49.81
53 - Real Estate & Rental & Leasing	2	PWC	65.04	1	EY	11.81	4	PWC	75.55	1	DTT	10.74	4	PWC	80.91	2	DTT	8.70
54 - Professional, Scientific & Technical Services	1	EY	44.20	1	PWC	28.03	2	EY	64.43	2	BDO	15.01	2	EY	62.21	1	SW	18.19
56 - Administrative Support & Waste Management & Redemption Services		N/A			N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
72 - Accommodation & Food Services	1	DTT	100.00		N/A		1	EY	100.00		N/A			N/A			N/A	
92 - Public Administration	1	DTT	100.00		N/A		1	HOMAN	100.00		N/A		1	KPMG	68.24	1	PNC	31.76
Hangzhou	2						5						7					

Regional City - Industry	2004 (n=535)				2005 (n=603)				2006 (n=618)									
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
22 - Utilities		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
31-33 - Manufacturing		N/A			N/A		2	DTT	80.43	1	RSM	19.57	2	DTT	74.43	1	RSM	25.57
51 - Information		N/A			N/A		1	CCIF	100.00		N/A		1	CCIF	100.00		N/A	
92 - Public Administration		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
Hebei	6						7						7					
21 - Mining	1	EY	100.00		N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	
22 - Utilities	1	DTT	100.00		N/A		1	DTT	100.00		N/A			N/A			N/A	
31-33 - Manufacturing	1	EY	49.57	2	DTT	35.27	2	DTT	45.79	1	EY	42.38	2	DTT	34.02	1	EY	32.31
53 - Real Estate & Rental & Leasing		N/A			N/A		1	RSM	100.00		N/A		1	CCIF	100.00		N/A	
Henan	5						6						6					
21 - Mining		N/A			N/A		1	KPMG	100.00		N/A		1	KPMG	100.00		N/A	
31-33 - Manufacturing	1	EY	45.34	1	KPMG	33.69	1	EY	42.11	1	KPMG	37.49	1	EY	44.16	1	THKC	43.16
48-49 - Transportation & Warehousing	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
51 - Information	1	PWC	100.00		N/A		1	PWC	100.00		N/A			N/A			N/A	
Huizhou	5						6						4	N/A			N/A	
31-33 - Manufacturing	2	EY	58.55	1	DTT	33.94	2	DTT	53.62	2	EY	44.37		N/A			N/A	
52 - Finance & Insurance	1	RSM	100.00		N/A		1	RSM	100.00		N/A			N/A			N/A	
Human	3	N/A			N/A		7						9					
21 - Mining		N/A			N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	
23 - Construction		N/A			N/A			N/A			N/A		1	PWC	100.00		N/A	
31-33 - Manufacturing		N/A			N/A		1	EY	70.76	1	GT	15.64	2	EY	83.91	1	DTT	10.35
48-49 - Transportation & Warehousing		N/A			N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
51 - Information		N/A			N/A		1	CCIF	100.00		N/A		1	HOPKINS	100.00		N/A	
Jiangsu	12						13						15					
23 - Construction	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
31-33 - Manufacturing	1	DTT	52.28	2	EY	19.60	1	DTT	46.65	1	KPMG	22.32	2	EY	55.14	6	DTT	30.09
48-49 - Transportation & Warehousing	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
52 - Finance & Insurance		N/A			N/A			N/A			N/A		1	PWC	100.00		N/A	
53 - Real Estate & Rental & Leasing	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	91.78	1	DTT	8.22
54 - Professional, Scientific & Technical Services	2	DTT	100.00		N/A		2	DTT	100.00		N/A		1	CACHET	100.00		N/A	
Jilin	4						4						5					
31-33 - Manufacturing		N/A			N/A			N/A			N/A		1	EY	63.63	1	DTT	17.06
42 - Wholesale Trade		N/A			N/A			N/A			N/A		1	HLB	100.00		N/A	

Regional City - Industry	2004 (n=535)			2005 (n=603)			2006 (n=618)												
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	
Nanjing	5						5						4						
31-33 - Manufacturing	1	HORWATH			N/A		1	HORWATH	100.00		N/A			N/A				N/A	
44-45 - Retail Trade		N/A			N/A		1	DTT	100.00		N/A			N/A				N/A	
48-49 - Transportation & Warehousing	1	HLB	100.00		N/A		1	HLB	100.00		N/A			N/A				N/A	
53 - Real Estate & Rental & Leasing	1	DTT	100.00		N/A			N/A			N/A			N/A				N/A	
54 - Professional, Scientific & Technical Services	1	HORWATH	100.00		N/A		1	HORWATH	100.00		N/A			N/A				N/A	
56 - Administrative Support & Waste Management & Redemption Services	1	DTT	100.00		N/A		1	DTT	100.00		N/A			N/A				N/A	
Shandong	10						12						16						
11 - Agriculture, Forestry, Fishing & Hunting	1	CCIF	100.00		N/A		1	CCIF	100.00		N/A		1	CCIF	100.00			N/A	
21 - Mining		N/A			N/A			N/A			N/A		1	EY	100.00			N/A	
22 - Utilities	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00			N/A	
31-33 - Manufacturing	2	EY	41.41	2	DTT	37.78	1	EY	36.77	2	DTT	26.20	2	EY	35.00	2	DTT	29.61	
52 - Finance & Insurance		N/A			N/A		1	KPMG	100.00		N/A			N/A				N/A	
54 - Professional, Scientific & Technical Services		N/A			N/A			N/A			N/A		1	DTT	100.00			N/A	
Shanghai	87						99						103						
22 - Utilities	1	DTT	69.29	1	PWC	30.71	1	DTT	65.18	1	PWC	34.82	1	DTT	60.62	1	PWC	39.38	
23 - Construction	1	EY	60.55	1	DTT	23.67	1	EY	47.69	1	DTT	38.36	1	EY	64.45	1	DTT	35.55	
31-33 - Manufacturing	9	PWC	49.69	11	DTT	17.01	10	PWC	37.03	6	EY	33.33	11	PWC	41.01	9	EY	31.64	
42 - Wholesale Trade	2	PWC	26.41	1	MS	22.66	1	PWC	33.73	1	DTT	24.21	1	PWC	48.57	1	RSM	21.81	
44-45 - Retail Trade	1	PWC	100.00		N/A		1	PWC	59.93	1	DTT	36.82	1	PWC	63.22	1	DTT	36.78	
48-49 - Transportation & Warehousing	1	PWC	90.12	1	RSM	5.33	1	PWC	95.53	1	RSM	4.47	2	PWC	100.00			N/A	
51 - Information	2	KPMG	84.25	1	GT	6.19	1	PWC	82.89	3	GT	8.35	3	GT	46.15	1	DTT	11.89	
52 - Finance & Insurance	3	PWC	81.54	1	KPMG	6.47	5	PWC	81.35	3	EY	13.89	4	PWC	60.82	4	EY	28.99	
53 - Real Estate & Rental & Leasing	1	PWC	58.07	3	DTT	20.89	2	PWC	47.77	2	EY	23.64	2	PWC	81.32	2	DTT	7.61	
54 - Professional, Scientific & Technical Services	1	BDO	33.43	1	DTT	24.32	2	CCIF	36.56	1	BDO	36.02	2	CCIF	42.86	1	DTT	37.37	
55 - Management of Companies & Enterprises		N/A			N/A			N/A			N/A		1	HLM	52.63	1	BT	47.37	
56 - Administrative Support & Waste Management & Redemption Services	1	RSM	69.70	1	CCIF	20.78	1	RSM	77.98	1	BDO	22.02	1	RSM	92.20	1	HLB	7.80	
72 - Accommodation & Food Services	1	KPMG	100.00		N/A		1	CCIF	100.00		N/A		1	PWC	82.00	1	CCIF	18.00	
81 - Other Services (except Public Administration)	1	GT	100.00		N/A		1	GT	100.00		N/A		1	GT	100.00			N/A	
Shenzhen	81						90						84						
22 - Utilities	1	DTT	100.00		N/A		1	DTT	100.00		N/A		2	DTT	100.00			N/A	
23 - Construction	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00			N/A	
31-33 - Manufacturing	23	DTT	40.59	9	EY	29.82	8	EY	34.89	21	DTT	30.66	14	DTT	31.87	11	EY	27.12	

Regional City - Industry	2004 (n=535)						2005 (n=603)						2006 (n=618)					
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
42 - Wholesale Trade	2	PWC	100.00		N/A		1	DTT	54.25	2	PWC	45.75	3	PWC	57.47	1	DTT	42.53
48-49 - Transportation & Warehousing	1	DTT	47.89	1	PWC	42.25	1	PWC	43.13	1	EY	34.32	1	CCIF	78.20	1	BT	21.80
51 - Information	2	PWC	62.54	2	DTT	31.22	1	BT	72.54	2	PWC	15.49	1	BT	84.93	1	DTT	14.29
52 - Finance & Insurance	1	GT	100.00		N/A		1	GT	100.00		N/A			N/A			N/A	
53 - Real Estate & Rental & Leasing	2	EY	74.73	1	PWC	14.41	2	PWC	54.96	1	EY	37.66	2	EY	69.15	1	PWC	22.23
54 - Professional, Scientific & Technical Services	1	CCIF	36.89	1	PKF	33.51	1	PWC	67.85	1	CCIF	17.28	1	PWC	57.67	1	MR	19.36
55 - Management of Companies & Enterprises	1	GT	100.00		N/A		1	GT	62.69	1	BT	37.31	1	BT	100.00		N/A	
56 - Administrative Support & Waste Management & Redemption Services	1	EY	90.29	1	HLB	5.17	1	EY	95.79	1	DTT	4.21	1	EY	100.00		N/A	
62 - Health Care & Social Assistance		N/A			N/A			N/A			N/A		1	CCIF	100.00		N/A	
71 - Arts, Entertainment & Recreation		N/A			N/A			N/A			N/A		1	KPMG	100.00		N/A	
72 - Accommodation & Food Services	1	DTT	100.00		N/A		1	DTT	100.00		N/A			N/A			N/A	
Suzhou	8						9						8					
22 - Utilities	1	PWC	100.00		N/A		1	PWC	100.00		N/A			N/A			N/A	
31-33 - Manufacturing	2	PWC	34.75	2	DTT	28.92	3	DTT	38.19	2	EY	26.73	3	DTT	37.67	1	KPMG	30.22
Tianjin	13						12						13					
22 - Utilities	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
31-33 - Manufacturing	1	MR	29.59	3	PWC	28.85	1	MR	29.57	2	KPMG	26.63	2	PWC	36.19	1	MR	32.48
48-49 - Transportation & Warehousing		N/A			N/A			N/A			N/A		1	PWC	100.00		N/A	
51 - Information		N/A			N/A			N/A			N/A		1	KPMG	100.00		N/A	
53 - Real Estate & Rental & Leasing		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
Wuhan	2						4						5					
23 - Construction		N/A			N/A			N/A			N/A		1	DTT	100.00		N/A	
31-33 - Manufacturing		N/A			N/A			N/A			N/A		1	EY	77.72	1	KPMG	22.28
48-49 - Transportation & Warehousing		N/A			N/A			N/A			N/A		1	MR	100.00		N/A	
54 - Professional, Scientific & Technical Services		N/A			N/A			N/A			N/A		1	RSM	100.00		N/A	
Xiamen	3						5						6					
31-33 - Manufacturing		N/A			N/A		1	PWC	68.55	1	CCIF	31.45	1	KPMG	51.44	1	PWC	34.44
48-49 - Transportation & Warehousing		N/A			N/A		2	PWC	100.00		N/A		2	PWC	100.00		N/A	
51 - Information		N/A			N/A		1	KPMG	100.00		N/A		1	KPMG	100.00		N/A	
Zhejiang	10						9						13					
23 - Construction	1	EY	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	
31-33 - Manufacturing	2	PWC	76.61	2	DTT	13.24	3	PWC	90.14	1	CCIF	4.95	4	PWC	78.87	1	KPMG	9.32
48-49 - Transportation & Warehousing	1	DTT	100.00		N/A		1	DTT	100.00		N/A		1	DTT	100.00		N/A	

Regional City - Industry	2004 (n=535)						2005 (n=603)						2006 (n=618)					
	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees	n	1st Ranked Firm	% of Total Audit Fees	n	2nd Ranked Firm	% of Total Audit Fees
51 - Information	1	KPMG	99.44	1	DTT	0.56	1	KPMG	99.04	1	DTT	0.96	1	MR	100.00		N/A	
53 - Real Estate & Rental & Leasing	1	PWC	100.00		N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
Zhongshan	10						12						10					
31-33 - Manufacturing	3	DTT	52.12	3	EY	34.55	4	DTT	49.84	3	EY	30.29	4	DTT	53.49	3	EY	34.11
52 - Finance & Insurance	1	LLC	100.00		N/A		1	LLC	100.00		N/A		1	LLC	100.00		N/A	
56 - Administrative Support & Waste Management & Redemption Services	1	RSM	100.00		N/A		1	RSM	100.00		N/A			N/A			N/A	
Zuhai	4						5						5					
31-33 - Manufacturing		N/A			N/A		1	DTT	100.00		N/A		1	PWC	68.65	1	DTT	22.94
54 - Professional, Scientific & Technical Services		N/A			N/A		1	PWC	100.00		N/A		1	PWC	100.00		N/A	
56 - Administrative Support & Waste Management & Redemption Services		N/A			N/A		1	CCIF	100.00		N/A			N/A			N/A	
72 - Accommodation & Food Services		N/A			N/A		1	EY	100.00		N/A		1	EY	100.00		N/A	

Audit Firm	No. of Industry/Regional City Leadership - 1st Ranked		No. of Industry/Regional City Leadership - 1st Ranked		No. of Industry/Regional City Leadership - 1st Ranked		No. of Industry/Regional City Leadership - 1st Ranked		No. of Industry/Regional City Leadership - 1st Ranked	
	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked	2nd Ranked
<u>Big 4 Audit Firms</u>										
DTT	29	16	45	36	13	49	30	21	51	
EY	16	12	28	21	14	35	24	9	33	
KPMG	7	3	10	7	4	11	9	5	14	
PWC	31	11	42	36	15	51	40	12	52	
<u>Non-Big 4 Audit Firms</u>										
BDO	1	0	1	0	3	3	0	0	0	
BT	0	0	0	1	1	2	2	2	4	
CACHET	0	0	0	0	0	0	1	0	1	
CCIF	3	1	4	8	3	11	8	2	10	
GHYC	0	1	1	0	0	0	0	0	0	
GT	4	2	6	4	2	6	3	0	3	
HLB	2	1	3	2	1	3	2	1	3	
HOMAN	0	0	0	1	0	1	0	0	0	

HOPKINS	0	0	0	0	0	0	0	1	0	1
HORWATH	2	0	2	2	0	2	0	0	0	0
JCC	0	1	1	0	0	0	0	0	0	0
LLC	1	0	1	1	0	1	1	1	0	1
MR	2	1	3	1	0	1	2	2	2	4
MS	0	1	1	0	0	0	0	0	0	0
NCMF	0	1	1	0	0	0	0	0	0	0
PKF	0	1	1	0	0	0	0	0	0	0
PNC	0	0	0	0	0	0	0	0	1	1
RSM	3	2	5	5	2	7	3	3	3	6
SW	0	0	0	0	0	0	0	0	1	1
THKC	0	0	0	0	0	0	0	0	1	1
WHT	1	0	1	0	0	0	0	0	0	0

Abbreviations

:

Big 4 Audit

Firms

DTT	=Deloitte
KPMG	=KPMG
PWC	=PricewaterhouseCoopers
EY	=Ernst & Young

Non-Big 4

Audit Firms

BDO	=BDO McCabe Lo & Co.
BT	=Baker Tilly
CACHET	=Cachet CPA
CCIF	=CCIF CPA Limited
GHYC	=Graham H. Y. Chan & Co.
GT	=Grant Thornton
HLB	=HLB Hodgson Impey Cheng
HLM	=HLM & Co.
HH	=Ho & Ho CPA Ltd

HOMAN	=Homan CPA Limited
HOPKINS	=Hopkins CPA Ltd.
HORWATH	=Horwath HK CPA Limited
LLC	=Li, Lai & Cheung
MR	=Moores Rowland Mazars
MS	=Moore Stephens
N/A	=Not Applicable
NCMF	=Nexia Charles Mar Fan & Co.
PNC	=Patrick Ng & Co
PKF	=PKF International
RSM	=RSM Nelson Wheeler
SW	=Shing Wing (HK) CPA Limited
THKC	=Ting Ho Kwan & Chan
WHT	=W.H. Tang & Partners CPA Ltd
WLLK	=Wong Lam Leung & Kwok CPA Ltd
YUEHUA	=Yuehua CPA Ltd

NAICS

Industry Name

11	Agriculture, Forestry, Fishing and Hunting
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
42	Wholesale Trade
44-45	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing

54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative & Support and Waste Management and Redemption Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
92	Public Administration

5.3.4 Test of Auditees Audited by Specialists vs. Non-specialists

Table 5.3j displays results about the number of client firms audited by specialists as opposed to non-specialists. All three types of specialists defined by various definitions are examined. Firstly, industry specialization is examined based on the two defining methods (i.e. benchmark and ranking method) and also under the two industry classification systems. Figures indicate that for all industry specialization definitions (except for the NAICS 20% benchmark definition), the number of clients audited by industry specialists increased considerably from 2004 to 2005 but decreased from 2005 to 2006. This is because the number of listed companies increased significantly over the three-year period. As stated in the Hong Kong Government yearbook (http://www.yearbook.gov.hk/2004/en/03_01.htm), 2004 was the year when the economy experienced a full-fledged upturn due to post-SARS effects that took place in mid 2003. In the subsequent two years, the economy continued to recover and many large companies became listed in the Hong Kong stock exchange.

Secondly, regional city specialization is also examined using both defining methods. All regional cities with China involved companies are examined but to further investigate whether the definition of a regional city specialist is sensitive to the number of client firms involved in each regional city, regional cities with less than 5 client firms involved are excluded from the dataset to prevent the inclusion of regional cities that are too small or unusual in nature. However, results indicate that regardless of which defining method used or whether regional cities with less than 5 client firms are included, the trend is consistent. Generally, the number of client firms audited by regional city specialists increased steadily over the three year period. Again, the increase from 2004 to 2005 is greater than the one from 2005 to 2006, which reinforces the assumption that audit specialists are demanded more when the number of listed companies increased because it is assumed that more auditees are in the market to demand for good quality audits, especially in their first year of listing. It is reasonable to believe the newly listed companies prefer to be

audited by auditors of relevant expertise to ensure financial information users can strongly rely of the financial reports that are publicly disclosed.

Lastly, regional city-industry specialization is examined in the same manner as the other two specializations discussed above. This is the combined version of the other two specializations to show the overall effect. In this case, the trend is the same as for regional city specialization. The number of client firms audited by these specialists increased constantly over the three year period with a larger increase from 2004 to 2005 under both industry classification systems.

In summary, the figures from these tables clearly illustrate the increasing trend of the demand for auditor specialization in the three areas observed in this study. They reflect the fact that the demand of auditors' specialization is higher when there are more auditees in the market. Out of the three specializations examined, industry specialization seems to be less affected by the increasing number of auditees because a drop was shown from 2005 to 2006, which is different from the other two specializations even though all others factors are held constant. Furthermore, results do not seem to be sensitive to alternate definitions of various specializations. Although the absolute number maybe different among the different definitions, the general trend remains consistent. After conducting the preliminary analyses, there is reasonable evidence (as discussed above) to support the proposition that the three kinds of auditors' specialization exist in Hong Kong, which is the first research question of this study and that makes the rest of this study worthwhile to carry out.

Table 5.3j
Auditees Audited by Specialists vs. Non-specialists

Definition	<u>2004</u>			<u>2005</u>			<u>2006</u>		
	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited
<u>Industry Specialization</u>									
Benchmark									
20% HSIC	367	655	1022	386	706	1092	379	743	1122
40% HSIC	91	931	1022	91	1001	1092	116	1006	1122
Ranking HSIC	410	612	1022	465	627	1092	456	666	1122
1st Ranked HSIC	271			277			268		
2nd Ranked HSIC	139			188			188		
Benchmark									
20% NAICS	487	535	1022	470	622	1092	468	654	1122
40% NAICS	162	860	1022	167	925	1092	141	981	1122
Ranking NAICS	504	518	1022	513	579	1092	489	633	1122
1st Ranked NAICS	308			314			288		
2nd Ranked NAICS	196			199			201		
<u>Regional City Specialization</u>									
Benchmark									
20%	310	312	622	314	393	707	330	385	715
40%	60	562	622	87	620	707	108	607	715

Definition	2004			2005			2006		
	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited	No. of clients audited by specialists	No. of clients audited by non-specialists	Total no. of clients audited
Benchmark - exclu. Cities < 5 client firms									
20% - exclu. Cities < 5 client firms	210	295	505	221	376	597	231	375	606
40% - exclu. Cities < 5 client firms	57	448	505	87	510	597	73	533	606
Ranking	231	391	622	255	452	707	257	458	715
1st Ranked	121			153			130		
2nd Ranked	110			102			127		
Ranking - exclu. Cities < 5 client firms	227	278	505	255	342	597	257	349	606
1st Ranked - exclu. Cities < 5 client firms	119			153			130		
2nd Ranked - exclu. Cities < 5 client firms	108			102			127		
<u>Regional City-Industry Specialization</u>									
Ranking HSIC (RIS)	141	394	535	167	436	603	169	449	
1st Ranked HSIC (RIS)	88			110			107		
2nd Ranked HSIC (RIS)	53			57			62		
Ranking NAICS (RIS)	155	380	535	183	420	603	186	432	
1st Ranked NAICS (RIS)	101			125			126		
2nd Ranked NAICS (RIS)	54			58			60		

Definitions:

20% HSIC	=specialist if the audit firm audits \geq 20% of total audit fees in an industry (using HSIC) and is either ranked 1st or 2nd in that industry
40% HSIC	=specialist if the audit firm audits \geq 40% of total audit fees in an industry (using HSIC) and is either ranked 1st or 2nd in that industry
1st Ranked HSIC	=specialist if the audit firm is ranked either 1st in an industry (using HSIC) in terms of market share
2nd Ranked HSIC	=specialist if the audit firm is ranked either 2nd in an industry (using HSIC) in terms of market share
20% NAICS	=specialist if the audit firm audits \geq 20% of total audit fees in an industry (using NAICS) and is either ranked 1st or 2nd in that industry
40% NAICS	=specialist if the audit firm audits \geq 40% of total audit fees in an industry (using NAICS) and is either ranked 1st or 2nd in that industry
1st Ranked NAICS	=specialist if the audit firm is ranked either 1st in an industry (using NAICS) in terms of market share
2nd Ranked NAICS	=specialist if the audit firm is ranked either 2nd in an industry (using NAICS) in terms of market share
20%	=specialist if the audit firm audits \geq 20% of total audit fees in a regional city and is either ranked 1st or 2nd in that regional city
20% - exclu. Cities < 5 client firms	=specialist if the audit firm audits \geq 20% of total audit fees in a regional city and is either ranked 1st or 2nd in that regional city, excluding those with < 5 client firms
40% - exclu. Cities < 5 client firms	=specialist if the audit firm audits \geq 40% of total audit fees in a regional city and is either ranked 1st or 2nd in that regional city, excluding those with < 5 client firms
1st Ranked	=specialist if the audit firm is either ranked 1st in that regional city in terms of market share
2nd Ranked	=specialist if the audit firm is either ranked 2nd in that regional city in terms of market share
1st Ranked - exclu. Cities < 5 client firms	=specialist if the audit firm is either ranked 2nd in that regional city in terms of market share, excluding those with < 5 client firms
2nd Ranked - exclu. Cities < 5 client firms	=specialist if the audit firm is either ranked 2nd in that regional city in terms of market share, excluding those with < 5 client firms

6.0 Results, Analyses and Discussions – Part 2

The results in this section are to test the remaining hypotheses of the study, which examine whether the level of audit fees increases/decreases when the engaged audit firm is an industry specialist, regional city specialist and/or regional city-industry specialist and whether being a Big 4 audit firm affects this. The primary results of this study are reported in the following sections. These include the use of both the NAICS and HSIC industry classification systems under the ranking and predetermined benchmark specialization defining methods. The audit fee model described in chapter 4 is used and all variables discussed are included in the regression.

6.1 Regression Results – HSIC Ranking Method (Proportion to Audit Fees)

6.1.1 HSIC Ranking Method – Overall Specialization

The primary classification system and the ranking method for defining specialists are used in this model to test for the three kinds of auditor specialization at the overall level (i.e. including all the companies in the sample). For 2004, the model is significant at $p < .01$ and has an adjusted R^2 of 0.752, which indicates the model has good explanatory power (Table 6.1). Results show that most of the control variables are significant in the expected direction except for ROI and LOSS. The insignificance of ROI and LOSS, which are both measures of the auditees' profitability, may be due to the nature of the research environment. ROI and LOSS tend to be significant under normal economic conditions because this is when companies operate normally with stable earnings. However, Hong Kong is experiencing a full-fledged economic upturn in 2004 (Hong Kong Government Yearbook, 2004), indicating that companies might be generating returns at an abnormal rate.

For the six test variables of auditor specialization, AUDITOR(RS1) is highly significant at 0.002 in 2004, indicating that the level of audit fees

increases when the engaged audit firm is a first ranked regional city specialist. However, for the other specialist variables, not many significant results are found. AUDITOR(I1) is significant at 0.025 in 2004, showing first ranked industry specialists are associated with higher audit fees but this again did not hold for the subsequent years. Another interesting finding is the fact that regional city-industry specialization is associated with negative signs, meaning that lower audit fees are associated with regional city-industry specialists and the results are not significant in this area.

Table 6.1
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 (Primary Model) – HSIC Ranking Method (Proportion to Audit Fees)

	2004 (n=1,022)			2005 (n=1,092)			2006 (n=1,122)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.214	6.801	0.000	1.042	6.006	0.000	1.404	7.569	0.000
SSUB	0.084	7.383	0.000**	0.056	4.967	0.000**	0.076	6.878	0.000**
SCSUB	0.040	2.431	0.015*	0.040	2.488	0.013*	0.063	4.048	0.000**
LTA	0.341	29.364	0.000**	0.372	32.546	0.000**	0.336	27.609	0.000**
CATA	0.272	4.043	0.000**	0.402	5.849	0.000**	0.476	6.929	0.000**
QUICK	0.000	-2.180	0.030*	0.006	-5.361	0.000**	-	-4.295	0.000**
							0.004		
DE	0.117	2.667	0.008**	0.191	3.449	0.001**	0.055	1.083	0.279
ROI	0.005	1.280	0.201	0.007	-1.052	0.293	-	-4.268	0.000**
							0.265		
FOREIGN	0.167	3.043	0.002**	0.140	2.399	0.017*	0.220	3.940	0.000**
OPINION	0.228	3.681	0.000**	0.246	3.663	0.000**	0.087	1.147	0.251
YE	-	-2.613	0.009**	0.156	-4.513	0.000**	-	-3.931	0.000**
	0.091						0.136		
LOSS	0.031	0.849	0.396	0.093	2.595	0.010**	0.067	1.797	0.073
BIG4	0.468	6.766	0.000**	0.420	5.858	0.000**	0.567	8.506	0.000**
HKTOP10	0.231	3.265	0.001**	0.048	0.709	0.479	0.096	1.541	0.123
CHINA	-	-0.685	0.494	0.022	-0.427	0.669	-	-1.208	0.227
	0.036						0.062		
AUDITOR(I1)	0.094	2.246	0.025*	0.086	1.952	0.051	0.049	1.116	0.264
AUDITOR((I2)	0.080	1.603	0.109	0.033	0.703	0.483	0.013	0.273	0.785
AUDITOR(RS1)	0.208	3.148	0.002**	0.009	-0.163	0.870	0.021	0.321	0.748
AUDITOR((RS2)	0.017	0.265	0.791	0.038	-0.611	0.541	-	-1.381	0.168
							0.085		
AUDITOR(RIS1)	-	-1.335	0.182	0.079	1.492	0.136	0.063	1.104	0.270
	0.079								
AUDITOR(RIS2)	-	-0.252	0.801	0.062	1.091	0.275	-	-0.693	0.488
	0.015						0.039		

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	156.063	0.000	0.757	0.752
2005	199.725	0.000	0.789	0.785
2006	192.772	0.000	0.778	0.774

Table 6.1 also shows the results of the same model for 2005 and 2006. The model is significant at $p < .01$ and has an adjusted R^2 of 0.785 and 0.774 respectively. Industry specialization for first ranked specialists, which shows an association with higher audit fees, is the only significant result among the specialist auditor variables. Again, most of the control variables are significant in the expected direction except for ROI in 2005 (similar situation to 2004) and DE and OPINION in 2006. It has been found in prior studies that DE is usually significant in high litigation environments, for example, Hogan and Jeter (1999), where the study was taken in the US, which is considered as an environment that involves more litigation. The results here are consistent with DeFond et al. (2000), which is also a Hong Kong study where DE is found to be insignificant due to less litigation involved. As for the test variables, no premiums are detected for these two years, which is not consistent with 2004's results.

6.1.2 HSIC Ranking Method – Big 4 Only

This section reports the results of the same regression model using the data of companies, which are audited by the Big 4 audit firms only. This is to test whether any fee premiums or discounts are specifically associated with Big 4 auditors. The primary industry classification system, HSIC and the ranking defining method is applied. The findings are reported in table 6.2 below. The model is significant at $p < .01$ and has an adjusted R^2 of 0.728, 0.721 and 0.674 for 2004, 2005 and 2006 respectively, which indicates the model has fairly good explanatory power. Results indicate that both industry specialization and regional city specialization lead to audit fee premiums in 2004 only. Industry specialization is also marginally significant in 2005. No other premiums or discounts are found for industry and regional city-industry specialization in 2005 and 2006, which is consistent with the results when the whole set of data was applied.

Table 6.2
Regression Model of Audit Fees and Big 4 Auditor Specialization for 2004 to
2006 – HSIC Ranking Method (Proportion to Audit Fees)

	2004 (n=767)			2005 (n=763)			2006 (n=754)		
	B	t	Sig.	B	t	Sig.	B	T	Sig.
(Constant)	1.180	5.616	0.000	0.984	4.522	0.000	1.763	7.520	0.000
SSUB	0.069	5.771	0.000**	0.042	3.410	0.001**	0.064	5.138	0.000**
SCSUB	0.043	2.462	0.014*	0.046	2.560	0.011*	0.072	4.022	0.000**
LTA	0.380	27.623	0.000**	0.409	30.046	0.000**	0.352	24.267	0.000**
CATA	0.314	3.953	0.000**	0.400	4.572	0.000**	0.442	5.049	0.000**
QUICK	0.000	-1.989	0.047*	-0.004	-3.203	0.001**	-0.003	-2.468	0.014*
DE	-0.019	-0.181	0.856	0.121	0.959	0.338	0.070	1.093	0.275
ROI	-0.234	-2.537	0.011**	-0.336	-3.655	0.000**	-0.309	-1.836	0.067
FOREIGN	0.126	1.982	0.048	0.114	1.601	0.110	0.244	3.461	0.001**
OPINION	0.151	1.748	0.081	0.340	2.622	0.009**	0.137	0.867	0.386
YE	-0.092	-2.297	0.022*	-0.165	-3.855	0.000**	-0.114	-2.584	0.010*
LOSS	0.067	1.648	0.100	0.127	2.992	0.003**	0.090	1.900	0.058
CHINA	-0.010	-0.152	0.879	-0.003	-0.037	0.971	-0.072	-1.023	0.307
AUDITOR(I1)	0.092	2.225	0.026*	0.090	2.002	0.046*	0.051	1.121	0.263
AUDITOR(I2)	0.085	1.739	0.082	0.031	0.662	0.508	0.013	0.271	0.786
AUDITOR(RS1)	0.198	2.948	0.003**	-0.020	-0.341	0.733	0.036	0.512	0.609
AUDITOR(RS2)	0.020	0.311	0.756	-0.038	-0.584	0.560	-0.068	-1.053	0.293
AUDITOR(RIS1)	-0.078	-1.215	0.225	0.074	1.253	0.211	0.037	0.556	0.579
AUDITOR(RIS2)	-0.023	-0.341	0.733	0.059	0.931	0.352	-0.049	-0.745	0.456

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	114.701	0.000	0.734	0.728
2005	109.982	0.000	0.727	0.720
2006	87.360	0.000	0.682	0.674

6.1.3 HSIC Ranking Method – Non-Big 4 Only

This follows on from the previous section using the same approach but applying to auditees audited by non-Big 4 audit firms only to examine whether various auditors' specialization lead to fee premiums or discounts for this set of companies specifically. The adjusted R^2 of the model for the three years are less than 0.70, indicating weaker explanatory power. This is reasonable because the dataset used in these tests is much smaller and a number of the primary variables are not applicable to these companies. Table 6.3 clearly shows that first-ranked industry specialization leads to a significant premium in 2004 at $p < .008$, less significant in 2005 ($p < 0.041$) and insignificant in 2006. No premiums or discounts are found for regional city and regional city-industry specialization for the three years.

Table 6.3
Regression Model of Audit Fees and Non-Big 4 Auditor Specialization for 2004
to 2006 – HSIC Ranking Method (Proportion to Audit Fees)

	2004 (n=255)			2005 (n=329)			2006 (n=368)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	2.425	6.968	0.000	2.076	6.655	0.000	1.974	6.092	0.000
SSUB	0.163	5.188	0.000**	0.139	4.994	0.000**	0.134	5.067	0.000**
SCSUB	-0.023	-0.536	0.593	-0.010	-0.265	0.791	0.027	0.800	0.424
LTA	0.232	9.040	0.000**	0.272	11.460	0.000**	0.283	11.923	0.000**
CATA	0.280	2.123	0.035*	0.419	3.652	0.000**	0.494	4.390	0.000**
QUICK	-0.005	-3.249	0.001**	-0.007	-4.119	0.000**	-0.006	-3.485	0.001**
DE	0.051	0.980	0.328	0.109	1.750	0.081	0.003	0.036	0.971
ROI	0.000	0.049	0.961	-0.006	-0.978	0.329	-0.203	-2.877	0.004**
FOREIGN	0.295	2.835	0.005**	0.248	2.459	0.014*	0.171	1.847	0.066
OPINION	0.310	3.414	0.001**	0.195	2.501	0.013	0.069	0.774	0.439
YE	-0.099	-1.458	0.146	-0.131	-2.229	0.027*	-0.195	-3.383	0.001**
LOSS	-0.118	-1.498	0.135	-0.070	-1.030	0.304	-0.001	-0.018	0.985
HKTOP10	0.203	2.738	0.007**	0.079	1.158	0.248	0.107	1.683	0.093
CHINA	-0.004	-0.047	0.963	-0.001	-0.006	0.995	-0.006	-0.077	0.938
AUDITOR(I1)	0.933	2.693	0.008**	0.666	2.050	0.041*	0.164	0.523	0.601
AUDITOR(I2)									
AUDITOR(RS1)	0.441	1.070	0.286	0.280	0.814	0.416			
AUDITOR(RS2)				-0.073	-0.144	0.886			
AUDITOR(RIS1)	-0.351	-1.964	0.051	-0.065	-0.437	0.662	0.187	1.318	0.188
AUDITOR(RIS2)	-0.024	-0.168	0.867	0.013	0.095	0.924	0.000	0.000	1.000

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	19.833	0.000	0.587	0.558
2005	30.312	0.000	0.638	0.617
2006	35.820	0.000	0.620	0.602

6.1.4 HSIC Ranking Method – Hong Kong Companies Only

After separating the sample into companies audited by the Big 4 or non-Big 4 only, this section and the next aim to test whether auditees that are pure Hong Kong companies or China-involved companies (as defined earlier in research design) would affect the relationship between auditors' specialization and audit fees. This section will first of all examine the pure Hong Kong companies of the sample. Results are reported in table 6.4 below. The adjusted R^2 for the model is 0.766, 0.793 and 0.789 in 2004, 2005 and 2006 respectively, which indicates good explanatory power. Significant fee premiums are found in 2005 for both first (0.024) and second ranked (0.041) industry specialists and only for first ranked (0.018) specialists in 2006. It can be observed that the results become slightly more significant from year to year, indicating a bigger linkage between industry specialization and higher audit fees. Note that regional city and regional city-industry specialization are not tested for here because these are only applicable to China-involved companies where auditors need to audit offices and/or operations in various regional cities of China that may lead to specialization. For pure Hong Kong companies, only industry specialization is applicable and to be tested for.

Table 6.4
Regression Model of Audit Fees and Auditor Specialization for 2004 to 2006 of
Hong Kong Companies Only – HSIC Ranking Method (Proportion to Audit
Fees)

	2004 (n=400)			2005 (n=385)			2006 (n=405)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.229	4.318	0.000	1.456	5.028	0.000	1.507	4.956	0.000
SSUB	0.091	5.348	0.000**	0.074	4.275	0.000**	0.076	4.646	0.000**
SCSUB	0.054	1.800	0.073	0.090	2.929	0.004**	0.104	3.567	0.000**
LTA	0.325	17.100	0.000**	0.324	16.242	0.000**	0.313	15.369	0.000**
CATA	0.252	2.361	0.019*	0.292	2.630	0.009**	0.412	3.641	0.000**
QUICK	0.000	-1.463	0.144	-0.006	-4.152	0.000**	-0.003	-3.124	0.002**
DE	0.123	2.337	0.020*	0.205	3.078	0.002**	0.135	1.500	0.134
ROI	0.006	1.299	0.195	-0.005	-0.709	0.479	-0.212	-2.685	0.008**
FOREIGN	0.435	3.920	0.000**	0.283	2.637	0.009**	0.424	4.335	0.000**
OPINION	0.337	2.900	0.004**	0.317	2.287	0.023*	0.044	0.337	0.736
YE	-0.101	-1.772	0.077	-0.190	-3.253	0.001**	-0.145	-2.633	0.009**
LOSS	0.082	1.313	0.190	0.174	2.820	0.005**	0.053	0.850	0.396
BIG4	0.606	5.501	0.000**	0.506	4.585	0.000**	0.664	5.935	0.000**
HKTOP10	0.307	2.599	0.010*	0.129	1.203	0.230	0.313	2.888	0.004**
AUDITOR(I1)	0.066	0.918	0.359	0.172	2.271	0.024*	0.177	2.369	0.018*
AUDITOR((I2)	-0.031	-0.370	0.712	0.177	2.055	0.041*	0.108	1.275	0.203

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	88.107	0.000	0.775	0.766
2005	99.053	0.000	0.801	0.793
2006	101.497	0.000	0.796	0.789

6.1.5 HSIC Ranking Method – China-involved Companies Only

This section follows on from the previous section with the examination of China-involved companies within the sample only. The adjusted R^2 for the three years are greater than 0.7, indicating good explanatory power of the model again (consistent with most of the results reported in this study).

Results are very similar to those reported in section 6.1.1 with an extremely significant regional city specialization premium in 2004 and not in the other two years.

Table 6.5
Regression Model of Audit Fees and Auditor Specialization for 2004 to 2006 of
China-involved Companies Only – HSIC Ranking Method (Proportion to
Audit Fees)

	2004 (n=622)			2005 (n=707)			2006 (n=717)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.196	5.241	0.000	0.534	2.411	0.000	1.313	5.672	0.000
SSUB	0.076	4.558	0.000**	0.052	3.299	0.001**	0.083	5.156	0.000**
SCSUB	0.022	1.026	0.305	0.001	0.048	0.962	0.031	1.506	0.132
LTA	0.360	24.230	0.000**	0.430	29.798	0.000**	0.354	22.945	0.000**
CATA	0.265	3.007	0.003**	0.443	5.043	0.000**	0.495	5.701	0.000**
QUICK	-0.002	-2.096	0.037*	-0.006	-2.720	0.007**	-0.007	-2.294	0.022*
DE	-0.016	-0.155	0.877	0.029	0.256	0.798	0.014	0.229	0.819
ROI	-0.003	-0.454	0.650	-0.369	-4.817	0.000**	-0.325	-3.004	0.003**
FOREIGN	0.050	0.805	0.421	0.053	0.777	0.438	0.115	1.667	0.096
OPINION	0.181	2.520	0.012*	0.141	1.888	0.059	0.134	1.441	0.150
YE	-0.091	-2.085	0.037	-0.141	-3.325	0.001**	-0.153	-3.443	0.001**
LOSS	-0.002	-0.050	0.960	0.012	0.267	0.789	0.045	0.959	0.338
BIG4	0.367	4.112	0.000**	0.329	3.439	0.001**	0.517	6.216	0.000**
HKTOP10	0.152	1.712	0.087	-0.029	-0.324	0.746	-0.008	-0.105	0.916
AUDITOR(I1)	0.097	1.884	0.060	0.035	0.655	0.513	-0.060	-1.075	0.283
AUDITOR(I2)	0.145	2.366	0.018*	-0.027	-0.486	0.627	-0.036	-0.606	0.545
AUDITOR(RS1)	0.212	3.382	0.001**	-0.014	-0.247	0.805	0.045	0.662	0.508
AUDITOR(RS2)	0.026	0.436	0.663	-0.051	-0.847	0.397	-0.069	-1.118	0.264
AUDITOR(RIS1)	-0.075	-1.324	0.186	0.084	1.663	0.097	0.070	1.256	0.209
AUDITOR(RIS2)	0.001	0.013	0.990	0.066	1.233	0.218	-0.035	-0.634	0.526

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	96.886	0.000	0.754	0.746
2005	143.587	0.000	0.799	0.793
2006	125.830	0.000	0.774	0.768

6.2 Regression Results – HSIC 20% Benchmark Method

6.2.1 HSIC 20% Benchmark Method – Overall Specialization

The model is significant at $p < .01$ and has an adjusted R^2 of 0.752, 0.758 and 0.775 in 2004, 2005 and 2006 respectively, which again indicates the model has good explanatory power for the three-year period. The 20% market share benchmark in proportion to audit fees is used as the defining method and also the primary industry classification system (HSIC) is applied in this set of tests. Results are presented in Table 6.6. Results are consistent with those under the HSIC ranking method. A significant premium is found associating with first ranked regional city specialists in 2004 only. No other premiums or discounts are found for other specialists or in other years except for second ranked regional city specialists in 2006. However, since first ranked regional city specialists variable in 2006 is not significant, this does not appear to indicate a premium for specializing. Regarding the control variables, the same ones appeared to be insignificant as in the HSIC ranking method tests, which are explained in section 6.1.1.

Table 6.6
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 (Primary Model) – HSIC 20% Benchmark Method (Proportion to Audit
Fees)

	2004 (n=1,022)			2005 (n=1,092)			2006 (n=1,122)		
	B	t	Sig.	B	t	Sig.	B	T	Sig.
(Constant)	1.190	6.644	0.000	1.057	6.095	0.000	1.418	7.646	0.000
SSUB	0.084	7.395	0.000**	0.057	5.037	0.000**	0.077	6.959	0.000**
SCSUB	0.040	2.454	0.014*	0.043	2.688	0.007**	0.063	4.056	0.000**
LTA	0.343	29.426	0.000**	0.371	32.432	0.000**	0.336	27.559	0.000**
CATA	0.282	4.180	0.000**	0.398	5.785	0.000**	0.474	6.924	0.000**
QUICK	0.000	-2.362	0.018*	-0.006	-5.475	0.000**	-0.004	-4.369	0.000**
DE	0.117	2.672	0.008**	0.189	3.414	0.001**	0.053	1.054	0.292
ROI	0.005	1.295	0.196	-0.007	-1.041	0.298	-0.265	-4.268	0.000**
FOREIGN	0.167	3.052	0.002**	0.146	2.505	0.012*	0.218	3.912	0.000**
OPINION	0.230	3.720	0.000**	0.245	3.648	0.000**	0.083	1.092	0.275
YE	-0.087	-2.502	0.013*	-0.149	-4.326	0.000**	-0.131	-3.812	0.000**
LOSS	0.029	0.804	0.422	0.093	2.595	0.010**	0.062	1.667	0.096
BIG4	0.531	7.568	0.000**	0.478	6.629	0.000**	0.608	9.101	0.000**
HKTOP10	0.231	3.266	0.001**	0.053	0.772	0.440	0.097	1.559	0.119
CHINA	-0.037	-0.709	0.479	-0.041	-0.792	0.428	-0.068	-1.345	0.179
AUDITOR(I1)	-0.001	-0.028	0.977	-0.019	-0.456	0.648	-0.024	-0.543	0.587
AUDITOR((I2)	-0.083	-1.699	0.090	-0.109	-2.140	0.033	-0.072	-1.441	0.150
AUDITOR(RS1)	0.223	3.416	0.001**	0.020	0.368	0.713	0.038	0.606	0.545
AUDITOR((RS2)	-0.001	-0.017	0.986	0.050	0.707	0.479	-0.132	-2.042	0.041*
AUDITOR(RIS1)	-0.067	-1.140	0.255	0.073	1.439	0.150	0.075	1.354	0.176
AUDITOR(RIS2)	-0.020	-0.339	0.734	0.050	0.902	0.367	-0.021	-0.374	0.709

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	155.635	0.000	0.757	0.752
2005	199.961	0.000	0.789	0.785
2006	193.573	0.000	0.779	0.775

6.2.2 HSIC 20% Benchmark Method – Big 4 Only

The purpose for this section is the same as for section 6.1.2 but the 20% benchmark defining method is applied instead of the ranking method. Results are displayed in table 6.7. The results are fairly consistent with those under the ranking method. By placing a benchmark, fewer audit firms qualify as regional city specialists and therefore, the association with a fee premium is much weaker.

Table 6.7
Regression Model of Audit Fees and Big 4 Auditor Specialization for 2004 to
2006 – 20% Benchmark Method

	2004 (n=767)			2005 (n=763)			2006 (n=754)		
	B	t	Sig.	B	t	Sig.	B	T	Sig.
(Constant)	1.225	5.812	0.000	1.078	4.942	0.000	1.825	7.758	0.000
SSUB	0.070	5.801	0.000**	0.043	3.436	0.001**	0.064	5.194	0.000**
SCSUB	0.044	2.510	0.012*	0.051	2.810	0.005**	0.073	4.073	0.000**
LTA	0.381	27.614	0.000**	0.407	29.854	0.000**	0.351	24.203	0.000**
CATA	0.330	4.144	0.000**	0.397	4.538	0.000**	0.442	5.063	0.000**
QUICK	0.000	-2.203	0.028*	-0.005	-3.375	0.001**	-0.003	-2.573	0.010**
DE	-0.007	-0.064	0.949	0.119	0.942	0.347	0.067	1.056	0.291
ROI	-0.208	-2.261	0.024*	-0.331	-3.596	0.000**	-0.310	-1.845	0.065
FOREIGN	0.127	1.988	0.047*	0.121	1.705	0.089	0.240	3.410	0.001**
OPINION	0.158	1.834	0.067	0.332	2.554	0.011*	0.111	0.702	0.483
YE	-0.087	-2.161	0.031*	-0.157	-3.692	0.000**	-0.107	-2.432	0.015*
LOSS	0.067	1.635	0.102	0.126	2.966	0.003**	0.082	1.747	0.081
CHINA	-0.012	-0.189	0.851	-0.035	-0.514	0.608	-0.083	-1.212	0.226
AUDITOR(I1)	-0.006	-0.140	0.888	-0.026	-0.615	0.539	-0.023	-0.512	0.609
AUDITOR(I2)	-0.094	-1.964	0.050*	-0.102	-1.996	0.046*	-0.071	-1.401	0.162
AUDITOR(RS1)	0.216	3.252	0.001**	0.017	0.309	0.757	0.051	0.775	0.439
AUDITOR(RS2)	0.001	0.016	0.987	0.052	0.728	0.467	-0.115	-1.711	0.087
AUDITOR(RIS1)	-0.067	-1.060	0.289	0.070	1.234	0.218	0.054	0.847	0.397
AUDITOR(RIS2)	-0.030	-0.451	0.652	0.048	0.769	0.442	-0.025	-0.380	0.704

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	114.396	0.000	0.734	0.727
2005	110.001	0.000	0.727	0.720
2006	87.876	0.000	0.683	0.675

6.2.3 HSIC 20% Benchmark Method – Non-Big 4 Only

This is a replicate section of section 6.1.3 with the use of the 20% market share benchmark method to define specialists. Results are also consistent with those under the ranking method. There is only a slight difference in the significance of the results and this is expected because fewer audit firms are defined as specialists if a benchmark is imposed as opposed to the ranking method, where an audit firm is defined as a specialist if it is top and second in the area, regardless of the market share they hold. The lower explanatory power is due to the smaller number of audit firms that are included in the regression analysis because the proportion of companies audited by non-Big 4 audit firms to Big 4 audit firms is much smaller. In addition, the gaps in the table below are due to the absence of client companies that are audited by non-Big 4 audit firms that could meet the particular definition(s). For example, there are no non-Big 4 audit firms that hold 20% or more market share and are ranked second in any industry of the sample.

Table 6.8
Regression Model of Audit Fees and Non-Big 4 Auditor Specialization for 2004
to 2006 – 20% Benchmark Method

	2004 (n=255)			2005 (n=329)			2006 (n=368)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	2.461	7.084	0.000	2.079	6.631	0.000	1.985	6.121	0.000
SSUB	0.160	5.132	0.000**	0.137	4.878	0.000**	0.135	5.081	0.000**
SCSUB	-0.022	-0.492	0.623	-0.006	-0.151	0.880	0.026	0.770	0.442
LTA	0.230	8.912	0.000**	0.273	11.428	0.000**	0.283	11.900	0.000**
CATA	0.279	2.126	0.035*	0.402	3.495	0.001**	0.491	4.369	0.000**
QUICK	-0.005	-3.284	0.001**	-0.007	-4.071	0.000**	-0.006	-3.512	0.001**
DE	0.039	0.748	0.455	0.109	1.748	0.081	0.000	0.000	1.000
ROI	0.000	0.057	0.955	-0.006	-0.965	0.336	-0.206	-2.927	0.004**
FOREIGN	0.281	2.701	0.007**	0.247	2.435	0.015*	0.170	1.837	0.067
OPINION	0.291	3.229	0.001**	0.197	2.500	0.013*	0.073	0.819	0.413
YE	-0.101	-1.477	0.141	-0.135	-2.265	0.024*	-0.199	-3.432	0.001**
LOSS	-0.103	-1.311	0.191	-0.070	-1.027	0.305	0.000	0.000	1.000
HKTOP10	0.201	2.730	0.007**	0.074	1.072	0.285	0.106	1.675	0.095
CHINA	-0.022	-0.249	0.804	0.001	0.007	0.994	-0.005	-0.063	0.949
AUDITOR(I1)	0.614	1.654	0.099	0.501	1.638	0.102	0.314	0.836	0.404
AUDITOR(I2)	1.063	2.059	0.041*	-0.251	-0.496	0.620			
AUDITOR(RS1)	0.135	0.357	0.722	0.197	0.580	0.562			
AUDITOR(RS2)				-0.073	-0.144	0.886			
AUDITOR(RIS1)				0.002	0.016	0.988	0.189	1.363	0.174
AUDITOR(RIS2)				0.015	0.107	0.915	-0.007	-0.057	0.954

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	21.015	0.000	0.586	0.558
2005	28.443	0.000	0.636	0.614
2006	35.889	0.000	0.620	0.603

6.2.4 HSIC 20% Benchmark Method – Hong Kong Companies Only

In order to examine whether auditors' specialization is sensitive to the definitions used, each set of tests is repeated under each alternative definition and the two industry classification systems used in this study, namely 1) the ranking method in proportion to audit fees; 2) the 20% market share benchmark method; 3) the 40% market share benchmark method and 4) the ranking method in proportion to auditees. Therefore, this section is to test the relationship between industry specialization (regional city and regional city-industry specialization are not applicable) and the level of audit fees of pure Hong Kong companies in the sample only. The explanatory power of the model is good for the three years but no significant fee premiums or discounts are detected, which is consistent with the results when the ranking method in proportion to audit fees is used. Results are presented in table 6.9 below.

Table 6.9

Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to 2006 of Hong Kong Companies Only – 20% Benchmark Method

	2004 (n=400)			2005 (n=385)			2006 (n=405)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.181	4.124	0.000	1.460	5.039	0.000	1.443	4.723	0.000
SSUB	0.092	5.426	0.000**	0.074	4.268	0.000**	0.072	4.465	0.000**
SCSUB	0.052	1.734	0.084	0.087	2.834	0.005**	0.113	3.959	0.000**
LTA	0.327	17.202	0.000**	0.324	16.242	0.000**	0.317	15.541	0.000**
CATA	0.264	2.462	0.014*	0.259	2.319	0.021*	0.435	3.826	0.000**
QUICK	0.000	-1.452	0.147	-0.006	-4.385	0.000**	-0.004	-3.333	0.001**
DE	0.125	2.373	0.018*	0.207	3.109	0.002**	0.140	1.556	0.121
ROI	0.006	1.311	0.191	-0.004	-0.646	0.519	-0.214	-2.704	0.007*
FOREIGN	0.436	3.949	0.000**	0.298	2.785	0.006**	0.433	4.441	0.000**
OPINION	0.340	2.933	0.004**	0.303	2.186	0.029*	0.047	0.362	0.718
YE	-0.099	-1.741	0.083	-0.171	-2.956	0.003**	-0.132	-2.388	0.017*
LOSS	0.095	1.513	0.131	0.179	2.894	0.004**	0.049	0.786	0.432
BIG4	0.596	5.325	0.000**	0.612	5.515	0.000**	0.712	6.313	0.000**
HKTOP10	0.307	2.610	0.009**	0.132	1.228	0.220	0.306	2.813	0.005**
AUDITOR(I1)	0.093	1.280	0.201	0.079	1.079	0.281	0.098	1.344	0.180
AUDITOR(I2)	-0.047	-0.578	0.564	-0.176	-1.964	0.050*	-0.046	-0.547	0.585

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	88.676	0.000	0.776	0.767
2005	99.523	0.000	0.802	0.794
2006	100.758	0.000	0.795	0.787

6.2.5 HSIC 20% Benchmark Method – China-involved Companies Only

Results for China-involved companies only are consistent with those under the ranking method. A significant fee premium is detected only for the top regional city specialists and only in 2004. No other significant results are found in subsequent years as reported in table 6.10 below.

Table 6.10
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 of China-involved Companies Only – 20% Benchmark Method

	2004			2005			2006		
	(n=622)			(n=707)			(n=717)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.196	5.228	0.000	0.546	2.469	0.000	1.343	5.820	0.000
SSUB	0.073	4.344	0.000**	0.053	3.357	0.001**	0.087	5.423	0.000**
SCSUB	0.026	1.207	0.228	0.001	0.049	0.961	0.029	1.413	0.158
LTA	0.361	24.227	0.000**	0.428	29.663	0.000**	0.351	22.775	0.000**
CATA	0.274	3.109	0.002**	0.455	5.182	0.000**	0.499	5.791	0.000**
QUICK	-0.002	-2.162	0.031*	-0.006	-2.823	0.005**	-0.006	-2.223	0.027*
DE	-0.027	-0.270	0.788	0.020	0.177	0.859	0.011	0.180	0.857
ROI	-0.003	-0.425	0.671	-0.363	-4.748	0.000**	-0.322	-2.987	0.003**
FOREIGN	0.038	0.609	0.543	0.059	0.853	0.394	0.113	1.637	0.102
OPINION	0.192	2.664	0.008**	0.143	1.907	0.057	0.131	1.420	0.156
YE	-0.084	-1.920	0.055	-0.142	-3.353	0.001**	-0.155	-3.504	0.000**
LOSS	-0.007	-0.149	0.882	0.016	0.370	0.712	0.040	0.862	0.389
BIG4	0.472	5.242	0.000**	0.360	3.758	0.000**	0.551	6.623	0.000**
HKTOP10	0.151	1.697	0.090	-0.030	-0.330	0.742	-0.006	-0.086	0.932
AUDITOR(I1)	-0.075	-1.413	0.158	-0.083	-1.669	0.096	-0.110	-2.038	0.042*
AUDITOR(I2)	-0.117	-1.948	0.052	-0.066	-1.091	0.276	-0.079	-1.278	0.202
AUDITOR(RS1)	0.240	3.859	0.000**	0.025	0.472	0.637	0.043	0.678	0.498
AUDITOR(RS2)	0.026	0.417	0.677	0.025	0.369	0.712	-0.119	-1.855	0.064
AUDITOR(RIS1)	-0.059	-1.057	0.291	0.083	1.705	0.089	0.084	1.544	0.123
AUDITOR(RIS2)	-0.008	-0.144	0.886	0.054	1.016	0.310	-0.018	-0.335	0.738

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	96.302	0.000	0.752	0.745
2005	143.876	0.000	0.799	0.794
2006	127.373	0.000	0.776	0.770

6.3 Regression Results – HSIC 40% Benchmark Method

6.3.1 HSIC 40% Benchmark Method – Overall Specialization

Similar tests are conducted as in section 6.2.1, using the 40% market share benchmark along with the HSIC system. The model is significant at $p < .01$ and has an adjusted R^2 of 0.750, 0.785 and 0.774 in 2004, 2005 and 2006 respectively, indicating the model has good explanatory power. The same control variables are found to be insignificant as reported in sections 6.1.1 and 6.2.1². Results are fairly consistent with those under the ranking method and 20% benchmark method but small differences are observed. The premium associating with first ranked regional city specialists is less significant (significant at $p < 0.015$) in 2004 but on the other hand, a more significant first ranked regional city specialist premium is found in 2006 ($p < 0.029$), which was not seen in the prior two sets of tests. This may be due to the fact that an audit firm should have a much larger market share than 20% or just simply being first in the regional city in order to be defined as a specialist. 40% or even a higher benchmark may be needed. This would require further investigation of the different benchmarks used. As an extended part of this study, 50% and 60% benchmarks are also tested but results do not tend to differ significantly.

² Insignificant control variables: 2004 – LOSS & ROI; 2005 – ROI; and 2006 – DE & OPINION.

Table 6.11
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 (Primary Model) – HSIC 40% Benchmark Method (Proportion to Audit
Fees)

	2004 (n=1,022)			2005 (n=1,092)			2006 (n=1122)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.198	6.689	0.000	1.060	6.117	0.000	1.416	7.631	0.000
SSUB	0.082	7.206	0.000**	0.054	4.818	0.000**	0.076	6.904	0.000**
SCSUB	0.044	2.680	0.007**	0.040	2.486	0.013*	0.061	3.944	0.000**
LTA	0.342	29.267	0.000**	0.372	32.400	0.000**	0.336	27.597	0.000**
CATA	0.291	4.297	0.000**	0.409	5.940	0.000**	0.473	6.904	0.000**
QUICK	0.000	-2.241	0.025*	-0.006	-5.465	0.000**	-0.004	-4.428	0.000**
DE	0.114	2.594	0.010**	0.188	3.386	0.001**	0.049	0.968	0.333
ROI	0.005	1.311	0.190	-0.007	-1.066	0.287	-0.266	-4.292	0.000**
FOREIGN	0.167	3.035	0.002**	0.142	2.443	0.015*	0.226	4.058	0.000**
OPINION	0.229	3.670	0.000((0.252	3.734	0.000**	0.091	1.192	0.233
YE	-0.088	-2.514	0.012*	-0.149	-4.319	0.000**	-0.131	-3.799	0.000**
LOSS	0.024	0.652	0.515	0.089	2.488	0.013*	0.068	1.845	0.065
BIG4	0.500	7.435	0.000**	0.435	6.284	0.000**	0.563	8.836	0.000**
HKTOP10	0.225	3.164	0.002**	0.045	0.655	0.513	0.096	1.549	0.122
CHINA	-0.028	-0.542	0.588	-0.029	-0.569	0.569	-0.087	-1.727	0.084
AUDITOR(I1)	0.081	1.766	0.078	0.059	1.297	0.195	0.027	0.561	0.575
AUDITOR((I2)				-0.478	-0.925	0.355			
AUDITOR(RS1)	0.190	2.444	0.015*	0.079	1.178	0.239	0.129	2.192	0.029*
AUDITOR((RS2)	0.147	0.499	0.618	-0.103	-0.628	0.530	0.047	0.342	0.733
AUDITOR(RIS1)	-0.024	-0.462	0.644	0.068	1.364	0.173	0.048	1.002	0.317
AUDITOR(RIS2)	0.017	0.287	0.774	0.052	0.949	0.343	-0.038	-0.719	0.472

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	162.494	0.000	0.755	0.750
2005	199.742	0.000	0.789	0.785
2006	203.369	0.000	0.778	0.774

6.3.2 HSIC 40% Benchmark Method – Big 4 Only

This section follows on from section 6.2.2. The only difference is the predetermined benchmark applied. The 40% benchmark is used for this set of tests and results are reported in table 6.12. Results again are consistent with those when the 20% benchmark was applied. Highly significant fee premiums or discounts are not detected for the three types of auditors' specializations over the three years. However, regional city specialization is significantly associated with an audit fee premium in 2004 and 2006 when the 40% benchmark is used. This is probably because not many audit firms have such large market share and therefore, if they do, they should be quite dominant and specialized in the regional city. This specialization would become valuable to client companies and it is possible to expect higher fees charged for audit firms being classified as regional city specialists when the 40% benchmark is used. Contrarily, regional city specialists could also have economies of scale that lead to lower costs and thus, it is also possible for them to charge lower audit fees as discussed earlier in the hypotheses development section of this study. However, results support the argument that regional city specialists are associated with higher audit fees when they possess 40% or more of the regional city's market share.

Table 6.12
Regression Model of Audit Fees and Big 4 Auditor Specialization for 2004 to
2006 – 40% Benchmark Method

	2004 (n=767)			2005 (n=763)			2006 (n=754)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.190	5.664	0.000	1.037	4.810	0.000	1.779	7.663	0.000
SSUB	0.068	5.602	0.000**	0.040	3.273	0.001**	0.063	5.135	0.000**
SCSUB	0.047	2.694	0.007**	0.047	2.617	0.009**	0.072	4.015	0.000**
LTA	0.381	27.541	0.000**	0.408	29.897	0.000**	0.352	24.247	0.000**
CATA	0.335	4.180	0.000**	0.409	4.673	0.000**	0.445	5.103	0.000**
QUICK	0.000	-2.034	0.042*	-0.005	-3.347	0.001**	-0.003	-2.606	0.009**
DE	-0.027	-0.248	0.804	0.113	0.894	0.371	0.064	1.009	0.313
ROI	-0.220	-2.380	0.018*	-0.331	-3.591	0.000**	-0.304	-1.811	0.070
FOREIGN	0.127	1.974	0.049*	0.119	1.677	0.094	0.251	3.568	0.000**
OPINION	0.152	1.752	0.080	0.339	2.610	0.009**	0.143	0.913	0.361
YE	-0.086	-2.130	0.033*	-0.159	-3.726	0.000**	-0.111	-2.507	0.012*
LOSS	0.058	1.434	0.152	0.122	2.882	0.004**	0.091	1.930	0.054
CHINA	-0.002	-0.031	0.975	-0.025	-0.375	0.707	-0.111	-1.626	0.104
AUDITOR(I1)	0.067	1.482	0.139	0.027	0.592	0.554	0.017	0.347	0.729
AUDITOR(I2)									
AUDITOR(RS1)	0.188	2.416	0.016*	0.082	1.194	0.233	0.130	2.091	0.037*
AUDITOR(RS2)	0.178	0.617	0.538	-0.091	-0.526	0.599	0.041	0.270	0.787
AUDITOR(RIS1)	-0.022	-0.386	0.700	0.062	1.102	0.271	0.036	0.648	0.517
AUDITOR(RIS2)	0.014	0.221	0.826	0.049	0.783	0.434	-0.037	-0.596	0.551

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	119.634	0.000	0.731	0.725
2005	116.123	0.000	0.726	0.720
2006	92.754	0.000	0.682	0.675

6.3.3 HSIC 40% Benchmark Method – Non-Big 4 Only

This section discusses the results when the primary industry classification system (HSIC) and the 40% benchmark are used. The same procedures apply as in section 6.2.3. Consistent results are obtained with those using the 20% benchmark, where no significant fee premiums or discounts are detected in relation to the three kinds of auditors' specialization. Only the ranking method found a significant fee premium associated with first ranked industry specialists.

Table 6.13
Regression Model of Audit Fees and Non-Big 4 Auditor Specialization for 2004
to 2006 – 40% Benchmark Method

	2004 (n=255)			2005 (n=329)			2006 (n=368)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	2.461	7.084	0.000	2.079	6.631	0.000	1.985	6.121	0.000
SSUB	0.160	5.132	0.000**	0.137	4.878	0.000**	0.135	5.081	0.000**
SCSUB	-0.022	-0.492	0.623	-0.006	-0.151	0.880	0.026	0.770	0.442
LTA	0.230	8.912	0.000**	0.273	11.428	0.000**	0.283	11.900	0.000**
CATA	0.279	2.126	0.035*	0.402	3.495	0.001**	0.491	4.369	0.000**
QUICK	-0.005	-3.284	0.001**	-0.007	-4.071	0.000**	-0.006	-3.512	0.001**
DE	0.039	0.748	0.455	0.109	1.748	0.081	0.000	0.000	1.000
ROI	0.000	0.057	0.955	-0.006	-0.965	0.336	-0.206	-2.927	0.004**
FOREIGN	0.281	2.701	0.007**	0.247	2.435	0.015*	0.170	1.837	0.067
OPINION	0.291	3.229	0.001**	0.197	2.500	0.013*	0.073	0.819	0.413
YE	-0.101	-1.477	0.141	-0.135	-2.265	0.024*	-0.199	-3.432	0.001**
LOSS	-0.103	-1.311	0.191	-0.070	-1.027	0.305	0.000	0.000	1.000
HKTOP10	0.201	2.730	0.007**	0.074	1.072	0.285	0.106	1.675	0.095
CHINA	-0.022	-0.249	0.804	0.001	0.007	0.994	-0.005	-0.063	0.949
AUDITOR(I1)	0.614	1.654	0.099	0.501	1.638	0.102	0.314	0.836	0.404
AUDITOR(I2)	1.063	2.059	0.041*	-0.251	-0.496	0.620			
AUDITOR(RS1)	0.135	0.357	0.722	0.197	0.580	0.562			
AUDITOR(RS2)				-0.073	-0.144	0.886			
AUDITOR(RIS1)				0.002	0.016	0.988	0.189	1.363	0.174
AUDITOR(RIS2)				0.015	0.107	0.915	-0.007	-0.057	0.954

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	21.015	0.000	0.586	0.558
2005	28.443	0.000	0.636	0.614
2006	35.889	0.000	0.620	0.603

6.3.4 HSIC 40% Benchmark Method – Hong Kong Companies Only

With the use of the 40% benchmark definition for specialists, no significant fee premiums or discounts are detected between pure Hong Kong companies and industry specialization, which is consistent with the results of the ranking method in proportion to audit fees, as well as the 20% benchmark definitions.

Table 6.14
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 of Hong Kong Companies Only – 40% Benchmark Method

	2004 (n=400)			2005 (n=385)			2006 (n=405)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.218	4.288	0.000	1.450	4.992	0.000	1.504	4.931	0.000
SSUB	0.089	5.240	0.000**	0.066	3.839	0.000	0.070	4.357	0.000**
SCSUB	0.056	1.885	0.060	0.093	3.072	0.002	0.115	4.048	0.000**
LTA	0.326	17.181	0.000**	0.326	16.324	0.000	0.313	15.337	0.000**
CATA	0.253	2.378	0.018*	0.285	2.557	0.011	0.423	3.725	0.000**
QUICK	0.000	-1.425	0.155	-0.006	-4.243	0.000**	-0.004	-3.369	0.001**
DE	0.122	2.322	0.021*	0.204	3.048	0.002**	0.135	1.499	0.135
ROI	0.006	1.313	0.190	-0.005	-0.691	0.490	-0.210	-2.660	0.008**
FOREIGN	0.443	4.015	0.000**	0.293	2.721	0.007**	0.440	4.504	0.000**
OPINION	0.339	2.922	0.004**	0.328	2.358	0.019*	0.052	0.396	0.692
YE	-0.095	-1.670	0.096	-0.169	-2.919	0.004**	-0.131	-2.370	0.018*
LOSS	0.085	1.358	0.175	0.166	2.682	0.008**	0.048	0.772	0.441
BIG4	0.591	5.516	0.000**	0.574	5.458	0.000**	0.722	6.739	0.000**
HKTOP10	0.306	2.601	0.010**	0.130	1.206	0.229	0.308	2.833	0.005**
AUDITOR(I1)	0.105	1.521	0.129	0.134	1.848	0.065	0.118	1.593	0.112
AUDITOR(I2)									

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	94.949	0.000	0.775	0.767
2005	105.263	0.000	0.799	0.792
2006	107.922	0.000	0.795	0.787

6.3.5 HSIC 40% Benchmark Method – China-involved Companies Only

Once again, the model has good explanatory power for the three years and consistent with previous results, a significant fee premium is detected in 2004 for the top regional city specialists. There is also a slightly more significant result in 2006 for the top regional city specialists, indicating a stronger relationship with increasing audit fees if the engaged audit firm is a top regional city specialist for the China-involved auditees. This is somewhat different from the use of the 20% benchmark definition because less audit firms are defined as specialists under this definition.

Table 6.15
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 of China-involved Companies Only – 40% Benchmark Method

	2004 (n=622)			2005 (n=707)			2006 (n=717)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.187	5.146	0.000	0.548	2.467	0.014*	1.280	5.535	0.000
SSUB	0.072	4.303	0.000**	0.050	3.156	0.002**	0.086	5.408	0.000**
SCSUB	0.029	1.337	0.182	0.001	0.040	0.968	0.027	1.316	0.189
LTA	0.361	23.993	0.000**	0.430	29.662	0.000**	0.356	23.054	0.000**
CATA	0.284	3.199	0.001**	0.451	5.137	0.000**	0.486	5.640	0.000**
QUICK	-0.002	-2.220	0.027*	-0.006	-2.813	0.005**	-0.007	-2.366	0.018*
DE	-0.033	-0.332	0.740	0.025	0.221	0.825	0.010	0.172	0.863
ROI	-0.003	-0.423	0.673	-0.364	-4.753	0.000**	-0.334	-3.096	0.002*
FOREIGN	0.041	0.647	0.518	0.054	0.778	0.437	0.127	1.846	0.065
OPINION	0.181	2.494	0.013*	0.145	1.921	0.055	0.135	1.462	0.144
YE	-0.085	-1.932	0.054	-0.142	-3.340	0.001**	-0.154	-3.464	0.001**
LOSS	-0.009	-0.204	0.838	0.015	0.337	0.736	0.054	1.159	0.247
BIG4	0.427	4.916	0.000**	0.316	3.371	0.001**	0.471	5.915	0.000**
HKTOP10	0.147	1.637	0.102	-0.038	-0.415	0.678	-0.010	-0.133	0.894
AUDITOR(I1)	0.072	1.157	0.248	-0.017	-0.290	0.772	-0.059	-0.914	0.361
AUDITOR(I2)				-0.323	-0.658	0.511			
AUDITOR(RS1)	0.204	2.782	0.006**	0.056	0.889	0.374	0.149	2.565	0.011*
AUDITOR(RS2)	0.196	0.702	0.483	-0.175	-1.129	0.259	0.066	0.496	0.620
AUDITOR(RIS1)	-0.029	-0.579	0.563	0.070	1.448	0.148	0.057	1.178	0.239
AUDITOR(RIS2)	0.024	0.427	0.669	0.056	1.065	0.287	-0.041	-0.764	0.445

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	99.669	0.000	0.748	0.741
2005	143.780	0.000	0.799	0.793
2006	133.644	0.000	0.775	0.769

6.4 Regression Results – HSIC Ranking Method (Proportion to Number of Auditees)

This section uses an alternative definition of auditors' specialization by using a proportion to the number of auditees instead of the proportion to the sum of audit fees for defining specialists. This is an extended part of the main tests reported above. Prior studies like Ferguson et al. 2003 have assumed that audit fees can better reflect market share because the more fees a firm receives the more dominant and significant it is in the market. However, in this study, the issue is also considered from a different perspective. The number of auditees may better reflect auditors' specialization since the more clients the audit firm deals with, the more efficient and familiar it becomes with companies of particular industries for industry specialists and companies located in the same region for regional city specialists. This alternative method is therefore worth investigating so apart from audit fees, the number of auditees is also used in this study as an alternative specialist definition. This definition is tested using both industry classification systems under the ranking method, which is the primary definition in this study to determine whether results will differ significantly if the number of auditees is used to define market share rather than using a proportion to audit fees received by an audit firm.

The secondary model is applied for this section with an additional variable to control for the non-Big 4 effects (*SECOND-TIER*). Regression analyses of both the primary and secondary model are conducted but results do not seem to differ significantly. Therefore, as an extended part of the main tests, the results of the secondary model are reported since all the previous reported main results are generated from the primary model. The secondary model is also tested in all other sections but no significant differences are observed so only the extended test results of the study will include the *SECOND-TIER* variable.

6.4.1 HSIC Ranking Method (Proportion to Auditees) – Overall Specialization

The model is significant at $p < .01$ and has an adjusted R^2 of 0.751, 0.785 and 0.775 in 2004, 2005 and 2006 respectively, indicating reasonable explanatory power of the model. A fee premium is detected in 2005 for regional city specialization, while no other fee premiums are detected for the other two years for any kind of auditors' specialization, which is different from the results reported under section 6.1 (when the proportion to audit fees was used to determine the market share of audit firms) where a significant regional city specialist premium was detected in 2004. Also, a small significant regional city specialist discount is found in 2005 under this secondary model. This indicates results tend to differ if market share is determined using different measurement bases.

Table 6.16
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 (Secondary Model) – HSIC Ranking Method (Proportion to Auditees)

	2004 (n=1,022)			2005 (n=1,092)			2006 (n=1,122)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.229	6.710	0.000	1.010	5.718	0.000	1.317	6.985	0.000
SSUB	0.087	7.624	0.000**	0.057	5.036	0.000**	0.076	6.906	0.000**
SCSUB	0.039	2.365	0.018*	0.042	2.615	0.009**	0.068	4.374	0.000**
LTA	0.340	29.116	0.000**	0.370	32.115	0.000**	0.336	27.436	0.000**
CATA	0.294	4.333	0.000**	0.422	6.093	0.000**	0.476	6.954	0.000**
QUICK	0.000	-2.333	0.020*	-0.006	-5.365	0.000**	-0.004	-4.156	0.000**
DE	0.119	2.719	0.007**	0.199	3.583	0.000**	0.050	0.993	0.321
ROI	0.005	1.468	0.142	-0.007	-1.077	0.282	-0.281	-4.523	0.000**
FOREIGN	0.167	3.037	0.002**	0.128	2.191	0.029*	0.221	3.952	0.000**
OPINION	0.219	3.521	0.000**	0.235	3.481	0.001**	0.064	0.842	0.400
YE	-0.087	-2.499	0.013*	-0.157	-4.538	0.000**	-0.143	-4.143	0.000**
LOSS	0.027	0.750	0.453	0.089	2.487	0.013*	0.063	1.693	0.091
BIG4	0.513	5.932	0.000**	0.552	6.526	0.000**	0.737	9.360	0.000**
HKTOP10	0.172	2.002	0.046*	0.056	0.705	0.481	0.195	2.681	0.007**
SECOND-TIER	-0.145	-1.162	0.246	0.051	0.404	0.686	0.304	2.631	0.009**
CHINA	0.038	0.690	0.490	0.053	0.968	0.333	-0.070	-1.350	0.177
AUDITOR(I1)	-0.039	-0.791	0.429	-0.029	-0.608	0.544	-0.075	-1.626	0.104
AUDITOR(I2)	-0.003	-0.055	0.956	-0.060	-1.160	0.246	-0.065	-1.261	0.207
AUDITOR(RS1)	-0.096	-1.327	0.185	-0.151	-2.125	0.034*	0.071	1.100	0.271
AUDITOR(RS2)	0.063	0.934	0.350	-0.111	-1.705	0.089	-0.063	-0.971	0.332
AUDITOR(RIS1)	-0.023	-0.366	0.715	0.048	0.771	0.441	-0.047	-0.800	0.424
AUDITOR(RIS2)	-0.140	-2.139	0.033*	0.035	0.573	0.567	0.051	0.838	0.402

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	147.979	0.000	0.757	0.751
2005	190.495	0.000	0.789	0.785
2006	184.367	0.000	0.779	0.775

6.4.2 HSIC Ranking Method (Proportion to Number of Auditees) – Big 4 Only

This is a subset of tests by examining auditees audited by the Big 4 firms to see whether there are any associated fee premiums or discounts. Again, the proportion to auditees is used to determine the market share of each audit firm within each industry, regional city and regional city-industry for defining specialists. The model is significant at $p < .01$ and has an adjusted R^2 of 0.729, 0.755 and 0.675 in 2004, 2005 and 2006 respectively, which again indicates good explanatory power of the model. A significant discount is found for the second ranked regional city-industry specialists in 2004, while a less significant discount is also detected for both first and second ranked industry specialists in 2005. No fee premiums or discounts are detected for 2006 that are associated with auditors' specialization, which is consistent with the findings reported section 6.1.2 when the proportion to audit fees was used. From these results, it seems there is some evidence that in some circumstances, the more auditees a Big 4 audit firm audits, the more likely for it to charge lower fees due to audit efficiency and benefits from economies of scale.

Table 6.17
Regression Model of Audit Fees and Big 4 Auditor Specialization for 2004 to
2006 (Secondary Model) – HSIC Ranking Method (Proportion to Number of
Auditees)

	2004 (n=767)			2005 (n=763)			2006 (n=754)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.250	5.873	0.000	0.823	3.229	0.001	1.846	7.795	0.000
SSUB	0.075	6.264	0.000**	0.052	2.904	0.004**	0.065	5.226	0.000**
SCSUB	0.038	2.161	0.031*	-0.008	-0.365	0.715	0.076	4.327	0.000**
LTA	0.379	27.473	0.000**	0.456	28.438	0.000**	0.351	24.084	0.000**
CATA	0.328	4.131	0.000**	0.435	3.950	0.000**	0.452	5.187	0.000**
QUICK	0.000	-2.179	0.030*	-0.004	-1.793	0.074	-0.003	-2.550	0.011*
DE	0.000	0.003	0.998	-0.278	-1.420	0.156	0.070	1.091	0.276
ROI	-0.230	-2.503	0.013*	-0.402	-3.828	0.000**	-0.324	-1.929	0.054
FOREIGN	0.131	2.046	0.041*	-0.065	-0.777	0.438	0.241	3.422	0.001**
OPINION	0.128	1.481	0.139	0.330	2.393	0.017*	0.094	0.599	0.550
YE	-0.086	-2.159	0.031*	-0.183	-3.458	0.001**	-0.125	-2.829	0.005**
LOSS	0.061	1.503	0.133	0.059	1.166	0.244	0.084	1.786	0.074
CHINA	0.096	1.392	0.164	0.085	1.784	0.143	-0.075	-1.065	0.287
AUDITOR(I1)	-0.067	-1.336	0.182	-0.134	-2.077	0.038*	-0.062	-1.277	0.202
AUDITOR(I2)	-0.025	-0.487	0.626	-0.157	-2.445	0.015*	-0.057	-1.088	0.277
AUDITOR(RS1)	-0.057	-0.708	0.479	-0.078	-0.947	0.344	0.059	0.779	0.436
AUDITOR(RS2)	0.100	1.352	0.177	-0.063	-0.877	0.381	-0.069	-0.927	0.354
AUDITOR(RIS1)	-0.062	-0.851	0.395	0.006	0.085	0.932	-0.057	-0.771	0.441
AUDITOR(RIS2)	-0.240	-3.106	0.002**	-0.019	-0.267	0.789	0.062	0.745	0.457

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	115.262	0.000	0.735	0.729
2005	89.710	0.000	0.764	0.755
2006	88.061	0.000	0.683	0.675

6.4.3 HSIC Ranking Method (Proportion to Number of Auditees) – Non-Big 4 Only

As with all other sections testing for non-Big 4 specialist premiums or discounts, no major significant results are obtained. This section specifically examined the HSIC ranking method with the use of the proportion to auditees for defining specialists. The model is significant at $p < .01$ and has an adjusted R^2 of 0.557 in 2004, 0.600 in 2005 and 0.607 in 2006. The explanatory power of the model is slightly weaker but this is consistent with all the other results when the non-Big 4 specialization is examined individually. One interesting finding in this set of tests, which is different from definitions used, was that a small significant premium ($p < 0.021$) was detected in 2004 for first ranked industry specialists but this did not hold for the three years. It was less significant in 2005 ($p < 0.053$) and insignificant in 2006.

Table 6.18
Regression Model of Audit Fees and Non-Big 4 Auditor Specialization for 2004
to 2006 (Secondary Model) – HSIC Ranking Method (Proportion to Number
of Auditees)

	2004 (n=255)			2005 (n=329)			2006 (n=368)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	2.455	7.042	0.000	1.809	3.898	0.000	1.893	5.801	0.000
SSUB	0.152	4.819	0.000**	0.117	3.341	0.001**	0.134	4.997	0.000**
SCSUB	-0.003	-0.060	0.953	0.021	0.465	0.643	0.028	0.811	0.418
LTA	0.234	9.072	0.000**	0.305	8.495	0.000**	0.281	11.760	0.000**
CATA	0.300	2.229	0.027*	0.462	3.035	0.003**	0.488	4.299	0.000**
QUICK	-0.005	-3.300	0.001**	-0.007	-1.674	0.096	-0.005	-3.314	0.001**
DE	0.046	0.889	0.375	0.154	1.059	0.291	0.001	0.011	0.991
ROI	0.001	0.221	0.825	-0.201	-1.646	0.101	-0.216	-3.056	0.002**
FOREIGN	0.294	2.819	0.005**	0.197	1.607	0.110	0.195	2.073	0.039*
OPINION	0.317	3.497	0.001**	0.128	1.349	0.179	0.046	0.514	0.608
YE	-0.083	-1.189	0.236	-0.127	-1.700	0.091	-0.204	-3.511	0.001**
LOSS	-0.109	-1.359	0.175	-0.141	-1.622	0.106	-0.005	-0.080	0.936
HKTOP10	0.148	1.635	0.103	-0.005	-0.048	0.962	0.222	2.986	0.003**
SECOND-TIER	-0.153	-1.164	0.245	-0.002	-0.009	0.993	0.313	2.693	0.007**
CHINA	-0.006	-0.060	0.953	-0.009	-0.101	0.920	-0.021	-0.260	0.795
AUDITOR(I1)	0.735	2.316	0.021*	0.604	1.946	0.053	0.215	0.684	0.495
AUDITOR(I2)							-0.440	-0.866	0.387
AUDITOR(RS1)	-0.204	-0.910	0.364	-0.247	-1.076	0.283	0.075	0.411	0.681
AUDITOR(RS2)	-0.138	-0.703	0.483	-0.180	-1.045	0.297	-0.073	-0.354	0.724
AUDITOR(RIS1)	-0.108	-0.823	0.411	0.022	0.166	0.868	0.021	0.182	0.856
AUDITOR(RIS2)	0.039	0.311	0.756	0.035	0.353	0.725	0.026	0.285	0.776

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	17.798	0.000	0.590	0.557
2005	18.831	0.000	0.634	0.600
2006	29.201	0.000	0.629	0.607

6.4.4 HSIC Ranking Method (Proportion to Number of Auditees) – Hong Kong Companies Only

The ranking method is being further examined in these two sections by using the proportion to auditees instead of audit fees to see whether results are sensitive to this alternative definition. For pure Hong Kong companies, no significant results are found although the model clearly demonstrates good explanatory power for the three-year period. This further supports the previous results of the other definitions examined in this study that industry specialization and audit fees are not associated with pure Hong Kong companies in the sample during 2004 to 2006.

Table 6.19
Regression Model of Audit Fees and Overall Auditor Specialization for 2004 to
2006 of Hong Kong Companies Only (Secondary Model) – HSIC Ranking
Method (Proportion to Auditees)

	2004 (n=400)			2005 (n=385)			2006 (n=405)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.275	4.418	0.000	1.406	4.715	0.000	1.420	4.533	0.000
SSUB	0.089	5.258	0.000**	0.067	3.882	0.000**	0.069	4.258	0.000**
SCSUB	0.056	1.896	0.059	0.098	3.216	0.001**	0.120	4.175	0.000**
LTA	0.328	17.143	0.000**	0.327	16.204	0.000**	0.316	15.381	0.000**
CATA	0.267	2.478	0.014*	0.286	2.532	0.012*	0.418	3.655	0.000**
QUICK	0.000	-1.675	0.095	-0.006	-4.255	0.000**	-0.004	-3.209	0.001**
DE	0.130	2.469	0.014*	0.206	3.059	0.002**	0.134	1.479	0.140
ROI	0.008	1.638	0.102	-0.005	-0.755	0.450	-0.222	-2.784	0.006**
FOREIGN	0.446	4.032	0.000**	0.282	2.593	0.010**	0.432	4.350	0.000**
OPINION	0.328	2.812	0.005**	0.327	2.340	0.020*	0.031	0.236	0.813
YE	-0.094	-1.657	0.098	-0.172	-2.936	0.004**	-0.143	-2.558	0.011*
LOSS	0.089	1.434	0.152	0.159	2.543	0.011*	0.054	0.848	0.397
BIG4	0.480	3.540	0.000**	0.597	4.541	0.000**	0.795	5.948	0.000**
HKTOP10	0.206	1.508	0.132	0.157	1.253	0.211	0.361	2.850	0.005**
SECOND-TIER	-0.290	-1.414	0.158	0.079	0.431	0.667	0.172	0.874	0.383
AUDITOR(I1)	0.016	0.207	0.836	0.048	0.614	0.540	0.013	0.175	0.861
AUDITOR(I2)	0.116	1.432	0.153	0.034	0.379	0.705	-0.021	-0.230	0.819

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	83.263	0.000	0.777	0.767
2005	90.735	0.000	0.798	0.789
2006	93.461	0.000	0.794	0.785

6.4.5 HSIC Ranking Method (Proportion to Number of Auditees) – China-involved Companies Only

For China-involved auditees using this definition, all three types of auditors' specialization are applicable. Results reported in table 6.20 below indicate that no significant fee premiums or discounts are found for regional city specialization and regional city-industry specialization, which is slightly different from the other definitions tested, where a significant regional city specialist premium is detected in 2004. In fact, they are associated with negative signs, indicating a possibility that auditors' specialization may lead to lower audit fees, which is one of the hypotheses of this study. There seems to be a significant finding that first ranked industry specialists lead to lower audit fees in 2006 ($p < 0.01$). This indicates results somewhat differ among different specialist definitions but the differences are not significant enough to change the overall results of the study. The main purpose of this set of tests is to investigate whether by using the number of auditees is a better method of defining specialists and whether this method would detect specialization premiums or discounts when other methods do not. However, results provide evidence that this is not the case.

Further research should be conducted for testing more alternative definitions to the extent that only minimal differences should exist when examining auditors' specialization using different definitions. Certain criteria should be set for choosing the most appropriate definition under different circumstances, for example, based on the nature of auditees in the research setting.

As part of the sensitivity analysis, the tests for industry specialists conducted by Ferguson et al. (2003) are also conducted with this study's data. Audit firms are classified under the categories of country-level specific industry leader, city-specific industry leader and being both. Results from this study's setting indicate that this does not affect the results significantly. There is only evidence of a fee premium in 2004 ($p < 0.025$) for audit firms being both industry and regional city specialists. However,

results do not hold for subsequent years. There is no other evidence that a fee premium or discount is associated with audit firms being country-level specific industry leader, city-level specific industry leader or both.

The results are consistent with an argument that people are only willing to pay higher audit fees for industry and regional city specialists in the early years of the audit engagement because more audit effort is required since the audit firms are not yet familiar with the audit environment and being a specialist can demonstrate certain audit quality to clients. 2004 is regarded as the primary year for Hong Kong audit firms to enter the China market so people value the specialization more. Hence, a premium is detected.

Table 6.20
Regression Model of Audit Fees and Auditor Specialization for 2004 to 2006 of
China-involved Companies Only (Secondary Model) – HSIC Ranking Method
(Proportion to Auditees)

	2004 (n=622)			2005 (n=707)			2006 (n=717)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.190	5.004	0.000	0.552	2.464	0.000	1.206	5.157	0.000
SSUB	0.086	5.101	0.000**	0.060	3.802	0.000**	0.088	5.496	0.000**
SCSUB	0.013	0.620	0.535	-0.006	-0.294	0.769	0.031	1.518	0.129
LTA	0.361	24.227	0.000**	0.427	29.679	0.000**	0.351	22.750	0.000**
CATA	0.285	3.228	0.001**	0.480	5.485	0.000**	0.500	5.780	0.000**
QUICK	-0.002	-2.063	0.040*	-0.006	-2.599	0.010**	-0.006	-2.260	0.024*
DE	-0.032	-0.321	0.749	0.056	0.511	0.610	0.005	0.088	0.930
ROI	-0.003	-0.531	0.596	-0.373	-4.904	0.000**	-0.355	-3.290	0.001**
FOREIGN	0.044	0.696	0.487	0.048	0.705	0.481	0.122	1.769	0.077
OPINION	0.167	2.327	0.020*	0.133	1.761	0.079	0.106	1.141	0.254
YE	-0.093	-2.118	0.035*	-0.151	-3.562	0.000**	-0.168	-3.784	0.000**
LOSS	-0.008	-0.171	0.864	0.008	0.193	0.847	0.037	0.792	0.429
BIG4	0.542	4.778	0.000**	0.484	4.307	0.000**	0.711	7.264	0.000**
HKTOP10	0.149	1.335	0.182	-0.029	-0.273	0.785	0.120	1.337	0.182
SECOND-TIER	-0.038	-0.239	0.811	-0.043	-0.245	0.806	0.388	2.724	0.007**
AUDITOR(I1)	-0.096	-1.426	0.154	-0.098	-1.562	0.119	-0.154	-2.575	0.010**
AUDITOR(I2)	-0.100	-1.483	0.139	-0.133	-2.118	0.035*	-0.087	-1.412	0.158
AUDITOR(RS1)	-0.072	-0.932	0.352	-0.126	-1.706	0.089	0.105	1.586	0.113
AUDITOR(RS2)	0.094	1.374	0.170	-0.101	-1.574	0.116	-0.045	-0.693	0.488
AUDITOR(RIS1)	-0.036	-0.605	0.545	0.044	0.761	0.447	-0.051	-0.908	0.364
AUDITOR(RIS2)	-0.146	-2.323	0.021*	0.026	0.456	0.648	0.045	0.776	0.438

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	91.297	0.000	0.752	0.744
2005	138.975	0.000	0.803	0.797
2006	121.154	0.000	0.777	0.771

6.5 Extended Tests

Due to the special nature of financial institutions, it is common for audit pricing studies to exclude all financial institutions from the sample to ensure these are not creating biased results. Hence, this study will also follow the same approach by excluding all the financial institutions from the sample and examine the relationship between overall auditors' specialization and the level of audit fees again by applying the different definitions using the primary industry classification system (HSIC) in this study. This is to provide a primary comparison with the previous results to see whether any unusual findings are caused by the inclusion of these financial institutions. This secondary model is applied here to see whether the additional *SECOND-TIER*³ variable would also impact the results.

6.5.1 HSIC Ranking Method (Proportion to Audit Fees) – Overall Specialization Excluding Financial Institutions

Firstly, the primary definition of the ranking method in proportion to audit fees is tested. The adjusted R^2 of the model over the three years is greater than 0.7, indicating good explanatory power of the model. After excluding the financial institutions, it is expected that any related bias effects are removed. Results reported in table 6.41 show that no significant differences exist before and after the exclusion of these financial institutions. Again, only a first ranked regional city specialist premium is detected in 2004, while no other significant results are found. This provides preliminary evidence that financial institutions in Hong Kong are not that different from companies of other industries. By testing the alternative definitions (in the following sections) may be able to provide further support of this finding.

³ The primary model without the *SECOND-TIER* variable is also tested and results do not tend to differ significantly.

Table 6.21
Regression Model of Audit Fees and Overall Auditor Specialization Excluding
Financial Institutions for 2004 to 2006 (Secondary Model) – HSIC Ranking
Method (Proportion to Audit Fees)

	2004 (n=943)			2005 (n=1,006)			2006 (n=1,039)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.427	7.645	0.000	1.103	5.913	0.000	1.461	7.322	0.000
SSUB	0.087	7.227	0.000**	0.066	5.473	0.000**	0.082	6.839	0.000**
SCSUB	0.035	2.146	0.032*	0.040	2.389	0.017*	0.060	3.737	0.000**
LTA	0.335	27.664	0.000**	0.366	29.042	0.000**	0.335	25.278	0.000**
CATA	0.346	5.003	0.000**	0.437	6.035	0.000**	0.446	6.270	0.000**
QUICK	-0.012	-5.553	0.000**	-0.009	-3.988	0.000**	-0.005	-3.134	0.002**
DE	0.076	1.787	0.074	0.186	3.376	0.001**	0.050	0.988	0.323
ROI	0.003	1.013	0.312	-0.008	-1.255	0.210	-0.259	-4.050	0.000**
FOREIGN	0.134	2.477	0.013*	0.107	1.810	0.071	0.214	3.744	0.000**
OPINION	0.193	3.134	0.002**	0.227	3.367	0.001**	0.057	0.730	0.466
YE	-0.101	-2.907	0.004**	-0.167	-4.751	0.000**	-0.156	-4.379	0.000**
LOSS	0.022	0.623	0.533	0.088	2.406	0.016*	0.060	1.573	0.116
BIG4	0.434	5.004	0.000**	0.486	5.652	0.000**	0.621	7.555	0.000**
HKTOP10	0.171	1.959	0.050*	0.050	0.604	0.546	0.106	1.367	0.172
SECOND-TIER	-0.052	-0.413	0.680	0.107	0.808	0.419	0.274	2.248	0.025*
CHINA	-0.065	-1.255	0.210	-0.008	-0.153	0.879	-0.114	-2.229	0.026*
AUDITOR(I1)	0.021	0.474	0.636	-0.006	-0.146	0.884	-0.033	-0.729	0.466
AUDITOR(I2)	-0.016	-0.324	0.746	-0.095	-1.921	0.055	-0.063	-1.246	0.213
AUDITOR(RS1)	0.173	2.723	0.007**	-0.009	-0.149	0.882	0.062	0.954	0.340
AUDITOR(RS2)	-0.002	-0.035	0.972	0.013	0.201	0.841	-0.053	-0.853	0.394
AUDITOR(RIS1)	-0.002	-0.041	0.967	0.041	0.754	0.451	0.039	0.731	0.465
AUDITOR(RIS2)	-0.069	-1.166	0.244	0.007	0.115	0.908	0.012	0.198	0.843

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	139.215	0.000	0.760	0.755
2005	165.019	0.000	0.779	0.774
2006	165.148	0.000	0.773	0.769

6.5.2 HSIC 20% Benchmark Method – Overall Specialization Excluding Financial Institutions

Secondly, the 20% benchmark is tested for the same reason. The model once again demonstrates good explanatory power for the three year period. Other results remain consistent with the previous ones. The only significant finding is the 2004 first ranked regional city specialist premium, which is found almost under every set of tests conducted in this study.

Table 6.22
Regression Model of Audit Fees and Overall Auditor Specialization Excluding
Financial Institutions for 2004 to 2006 (Secondary Model) – HSIC 20%
Benchmark Method

	2004			2005			2006		
	(n=943)			(n=1,006)			(n=1,039)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.421	7.623	0.000	1.106	5.935	0.000	1.475	7.405	0.000
SSUB	0.087	7.272	0.000**	0.067	5.519	0.000**	0.084	6.998	0.000**
SCSUB	0.035	2.140	0.033*	0.041	2.473	0.014*	0.059	3.659	0.000**
LTA	0.335	27.720	0.000**	0.366	29.002	0.000**	0.333	25.188	0.000**
CATA	0.350	5.062	0.000**	0.434	6.006	0.000**	0.445	6.266	0.000**
QUICK	-0.012	-5.523	0.000**	-0.008	-3.976	0.000**	-0.005	-3.131	0.002**
DE	0.077	1.795	0.073	0.187	3.385	0.001**	0.050	0.996	0.320
ROI	0.003	1.016	0.310	-0.008	-1.241	0.215	-0.258	-4.044	0.000**
FOREIGN	0.133	2.464	0.014*	0.111	1.869	0.062	0.213	3.736	0.000**
OPINION	0.194	3.157	0.002**	0.227	3.366	0.001**	0.055	0.711	0.477
YE	-0.101	-2.900	0.004**	-0.166	-4.710	0.000**	-0.155	-4.374	0.000**
LOSS	0.023	0.639	0.523	0.088	2.407	0.016*	0.056	1.481	0.139
BIG4	0.447	5.184	0.000**	0.485	5.679	0.000**	0.638	7.818	0.000**
HKTOP10	0.170	1.952	0.051	0.051	0.615	0.539	0.106	1.369	0.171
SECOND-TIER	-0.053	-0.422	0.673	0.102	0.768	0.443	0.274	2.255	0.024*
CHINA	-0.064	-1.237	0.216	-0.012	-0.231	0.818	-0.108	-2.101	0.036*
AUDITOR(I1)	0.009	0.210	0.834	-0.007	-0.152	0.880	-0.043	-0.976	0.329
AUDITOR(I2)	-0.049	-0.998	0.319	-0.109	-2.141	0.033*	-0.095	-1.847	0.065
AUDITOR(RS1)	0.174	2.774	0.006**	0.000	0.002	0.999	0.048	0.768	0.443
AUDITOR(RS2)	-0.026	-0.387	0.699	0.055	0.769	0.442	-0.123	-1.918	0.055
AUDITOR(RIS1)	0.007	0.119	0.905	0.027	0.509	0.611	0.055	1.056	0.291
AUDITOR(RIS2)	-0.069	-1.161	0.246	0.001	0.015	0.988	0.030	0.510	0.610

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	139.530	0.000	0.761	0.755
2005	165.311	0.000	0.779	0.774
2006	166.193	0.000	0.774	0.770

6.5.3 HSIC 40% Benchmark Method – Overall Specialization Excluding Financial Institutions

Thirdly, the 40% benchmark is also tested. Results are somewhat different from the 20% benchmark. This stricter definition finds a premium for industry in 2004, although this is not consistent with the results reported elsewhere. This indicates industry specialists with the most market share charge higher fees compared with regional city specialists of the same category. This set of results suggests that by excluding financial institutions in the Hong Kong SAR research setting does create some differences in the results but the differences are not extremely substantial.

Table 6.23
Regression Model of Audit Fees and Overall Auditor Specialization Excluding
Financial Institutions for 2004 to 2006 (Secondary Model) – HSIC 40%
Benchmark Method

	2004			2005			2006		
	(n=943)			(n=1,006)			(n=1,039)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.419	7.619	0.000	1.119	6.001	0.000	1.459	7.326	0.000
SSUB	0.086	7.126	0.000**	0.064	5.248	0.000**	0.082	6.873	0.000**
SCSUB	0.039	2.379	0.018*	0.038	2.287	0.022*	0.058	3.574	0.000**
LTA	0.335	27.700	0.000**	0.366	28.930	0.000**	0.335	25.344	0.000**
CATA	0.360	5.203	0.000**	0.445	6.148	0.000**	0.444	6.259	0.000**
QUICK	-0.012	-5.632	0.000**	-0.009	-4.009	0.000**	-0.005	-3.179	0.002**
DE	0.076	1.788	0.074	0.186	3.366	0.001**	0.046	0.917	0.359
ROI	0.004	1.045	0.296	-0.008	-1.257	0.209	-0.261	-4.085	0.000**
FOREIGN	0.133	2.459	0.014*	0.106	1.789	0.074	0.218	3.825	0.000**
OPINION	0.195	3.159	0.002**	0.236	3.478	0.001**	0.065	0.842	0.400
YE	-0.100	-2.867	0.004**	-0.165	-4.664	0.000**	-0.154	-4.334	0.000**
LOSS	0.018	0.495	0.621	0.082	2.242	0.025*	0.065	1.720	0.086
BIG4	0.421	5.020	0.000**	0.437	5.252	0.000**	0.581	7.405	0.000**
HKTOP10	0.163	1.864	0.063	0.036	0.439	0.661	0.106	1.365	0.173
SECOND-TIER	-0.063	-0.494	0.621	0.089	0.670	0.503	0.275	2.259	0.024*
CHINA	-0.053	-1.035	0.301	0.000	-0.005	0.996	-0.122	-2.380	0.018*
AUDITOR(I1)	0.093	2.062	0.039*	0.064	1.385	0.167	0.025	0.502	0.616
AUDITOR(I2)				-0.514	-1.008	0.314			
AUDITOR(RS1)	0.131	1.742	0.082	0.022	0.316	0.752	0.121	2.058	0.040*
AUDITOR(RS2)	0.118	0.419	0.675	-0.091	-0.562	0.574	0.053	0.392	0.695
AUDITOR(RIS1)	0.024	0.477	0.633	0.038	0.731	0.465	0.030	0.636	0.525
AUDITOR(RIS2)	-0.029	-0.508	0.612	0.008	0.145	0.885	0.011	0.203	0.839

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	145.746	0.000	0.760	0.754
2005	164.787	0.000	0.779	0.774
2006	173.722	0.000	0.773	0.769

6.5.4 HSIC Ranking Method (Proportion to Auditees) – Overall Specialization Excluding Financial Institutions

Finally, the ranking method in proportion to number of auditees is tested. No significant differences are detected among the results. After excluding the financial institutions from the data, there are fee discounts associated with first ranked industry specialists. More specifically, the coefficient on AUDITOR(I1) is negative and significant at 0.018 and 0.014 in 2004 and 2005 respectively but insignificant in 2006. These are different from the results when financial institutions are included but these are not extremely significant results so it does not prove that the inclusion of financial institutions will lead to significant fee premiums or discounts associated with auditors' specialization. However, this is evidence that having a large number of small clients is associated with a fee discount.

Table 6.24
Regression Model of Audit Fees and Overall Auditor Specialization Excluding
Financial Institutions for 2004 to 2006 (Secondary Model) – HSIC Ranking
Method (Proportion to Auditees)

	2004 (n=943)			2005 (n=1,006)			2006 (n=1,039)		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
(Constant)	1.424	7.657	0.000	1.112	5.980	0.000	1.420	7.155	0.000
SSUB	0.092	7.597	0.000**	0.069	5.698	0.000**	0.085	7.118	0.000**
SCSUB	0.031	1.911	0.056	0.039	2.389	0.017*	0.062	3.832	0.000**
LTA	0.333	27.409	0.000**	0.364	28.806	0.000**	0.336	25.398	0.000**
CATA	0.359	5.188	0.000**	0.450	6.251	0.000**	0.455	6.425	0.000**
QUICK	-0.012	-5.398	0.000**	-0.008	-3.796	0.000**	-0.005	-3.009	0.003**
DE	0.081	1.903	0.057	0.193	3.512	0.000**	0.053	1.057	0.291
ROI	0.004	1.054	0.292	-0.008	-1.239	0.216	-0.271	-4.259	0.000**
FOREIGN	0.125	2.303	0.022*	0.102	1.737	0.083	0.206	3.612	0.000**
OPINION	0.181	2.934	0.003**	0.222	3.304	0.001**	0.062	0.799	0.425
YE	-0.108	-3.100	0.002**	-0.174	-4.967	0.000**	-0.158	-4.462	0.000**
LOSS	0.016	0.444	0.657	0.081	2.219	0.027*	0.059	1.565	0.118
BIG4	0.521	5.966	0.000**	0.563	6.561	0.000**	0.684	8.253	0.000**
HKTOP10	0.164	1.885	0.060	0.042	0.509	0.611	0.119	1.535	0.125
SECOND-TIER	-0.068	-0.540	0.589	0.095	0.719	0.472	0.274	2.250	0.025*
CHINA	-0.031	-0.565	0.572	0.036	0.642	0.521	-0.057	-1.072	0.284
AUDITOR(I1)	-0.118	-2.376	0.018*	-0.119	-2.455	0.014*	-0.080	-1.771	0.077
AUDITOR(I2)	-0.043	-0.857	0.392	-0.063	-1.252	0.211	-0.132	-2.908	0.004**
AUDITOR(RS1)	-0.049	-0.667	0.505	-0.106	-1.524	0.128	0.075	1.275	0.203
AUDITOR(RS2)	0.016	0.236	0.813	-0.114	-1.782	0.075	-0.025	-0.406	0.685
AUDITOR(RIS1)	0.007	0.114	0.910	0.040	0.638	0.524	-0.107	-1.955	0.051
AUDITOR(RIS2)	0.018	0.264	0.792	0.029	0.470	0.638	-0.060	-1.031	0.303

a. Dependent Variable: LAF

Year	F	Sig.	R Square	Adjusted R Square
2004	139.183	0.000	0.760	0.755
2005	166.957	0.000	0.781	0.776
2006	166.594	0.000	0.775	0.770

6.6 Summary of Results Table

Regression Results Summary Table

Table	Specialist Definition	Type	IC System	YEAR	AUDITOR(I1)	AUDITOR(I2)	AUDITOR(RS1)	AUDITOR(RS2)	AUDITOR(RIS1)	AUDITOR(RIS2)
6.2	Ranking Method (AF)	Big 4	HSIC	2004	+					
6.2	Ranking Method (AF)	Big 4	HSIC	2005						
6.2	Ranking Method (AF)	Big 4	HSIC	2006						
6.7	20% Benchmark Method	Big 4	HSIC	2004			+			
6.7	20% Benchmark Method	Big 4	HSIC	2005						
6.7	20% Benchmark Method	Big 4	HSIC	2006						
6.12	40% Benchmark Method	Big 4	HSIC	2004				+		
6.12	40% Benchmark Method	Big 4	HSIC	2005						
6.12	40% Benchmark Method	Big 4	HSIC	2006					+	
6.17	Ranking Method (Auditees)	Big 4	HSIC	2004						
6.17	Ranking Method (Auditees)	Big 4	HSIC	2005	-	-				
6.17	Ranking Method (Auditees)	Big 4	HSIC	2006						
6.22	Ranking Method (AF)	Big 4	NAICS	2004				+		
6.22	Ranking Method (AF)	Big 4	NAICS	2005						
6.22	Ranking Method (AF)	Big 4	NAICS	2006						
6.27	20% Benchmark Method	Big 4	NAICS	2004				+		
6.27	20% Benchmark Method	Big 4	NAICS	2005						
6.27	20% Benchmark Method	Big 4	NAICS	2006						
6.32	40% Benchmark Method	Big 4	NAICS	2004				+		
6.32	40% Benchmark Method	Big 4	NAICS	2005						
6.32	40% Benchmark Method	Big 4	NAICS	2006					+	
6.37	Ranking Method (Auditees)	Big 4	NAICS	2004	-			+	-	-
6.37	Ranking Method (Auditees)	Big 4	NAICS	2005	-					
6.37	Ranking Method (Auditees)	Big 4	NAICS	2006						
6.5	Ranking Method (AF)	China-involved	HSIC	2004					+	
6.5	Ranking Method (AF)	China-involved	HSIC	2005						
6.5	Ranking Method (AF)	China-involved	HSIC	2006						
6.10	20% Benchmark Method	China-involved	HSIC	2004					+	
6.10	20% Benchmark Method	China-involved	HSIC	2005						
6.10	20% Benchmark Method	China-involved	HSIC	2006	-					
6.15	40% Benchmark Method	China-involved	HSIC	2004					+	
6.15	40% Benchmark Method	China-involved	HSIC	2005						
6.15	40% Benchmark Method	China-involved	HSIC	2006						+
6.20	Ranking Method (Auditees)	China-involved	HSIC	2004						
6.20	Ranking Method (Auditees)	China-involved	HSIC	2005						
6.20	Ranking Method (Auditees)	China-involved	HSIC	2006	-					
6.25	Ranking Method (AF)	China-involved	NAICS	2004					+	
6.25	Ranking Method (AF)	China-involved	NAICS	2005						
6.25	Ranking Method (AF)	China-involved	NAICS	2006						
6.30	20% Benchmark Method	China-involved	NAICS	2004					+	
6.30	20% Benchmark Method	China-involved	NAICS	2005						
6.30	20% Benchmark Method	China-involved	NAICS	2006	-					
6.35	40% Benchmark Method	China-involved	NAICS	2004					+	
6.35	40% Benchmark Method	China-involved	NAICS	2005						
6.35	40% Benchmark Method	China-involved	NAICS	2006					+	
6.40	Ranking Method (Auditees)	China-involved	NAICS	2004						
6.40	Ranking Method (Auditees)	China-involved	NAICS	2005	-	-				
6.40	Ranking Method (Auditees)	China-involved	NAICS	2006	-	-				
6.4	Ranking Method (AF)	HK	HSIC	2004						
6.4	Ranking Method (AF)	HK	HSIC	2005	+	+				
6.4	Ranking Method (AF)	HK	HSIC	2006	+					
6.9	20% Benchmark Method	HK	HSIC	2004						
6.9	20% Benchmark Method	HK	HSIC	2005						
6.9	20% Benchmark Method	HK	HSIC	2006						
6.14	40% Benchmark Method	HK	HSIC	2004						
6.14	40% Benchmark Method	HK	HSIC	2005						
6.14	40% Benchmark Method	HK	HSIC	2006						
6.19	Ranking Method (Auditees)	HK	HSIC	2004						
6.19	Ranking Method (Auditees)	HK	HSIC	2005						
6.19	Ranking Method (Auditees)	HK	HSIC	2006						
6.24	Ranking Method (AF)	HK	NAICS	2004						
6.24	Ranking Method (AF)	HK	NAICS	2005						
6.24	Ranking Method (AF)	HK	NAICS	2006						
6.29	20% Benchmark Method	HK	NAICS	2004						
6.29	20% Benchmark Method	HK	NAICS	2005						
6.29	20% Benchmark Method	HK	NAICS	2006						
6.34	40% Benchmark Method	HK	NAICS	2004						
6.34	40% Benchmark Method	HK	NAICS	2005						
6.34	40% Benchmark Method	HK	NAICS	2006						
6.39	Ranking Method (Auditees)	HK	NAICS	2004	+					
6.39	Ranking Method (Auditees)	HK	NAICS	2005						

From the summary table above, strong results can be observed for auditor industry specialization and regional city specialization. In particular, discounts are found in eight circumstances for industry specialization, for example, when the ranking fee method is used and the number of auditees is used to define industry specialists at the Big 4 level, for China-involved companies and also at the overall level when financial institutions are excluded from the data.

For regional city specialization, the positive results are found in 25 circumstances. These positive results are mainly found in year 2004 and 2005 and can be found at all levels except for pure Hong Kong companies and at the non-Big 4 level. Otherwise, a premium is detected regardless of which industry classification system is used under most definitions. For example, when the ranking method (audit fees) is used at the overall level under both the HSIC and NAICS; both 20% and 40% benchmark method under the HSIC and NAICS.

Very few premiums or discounts are detected for regional city-industry specialization, indicating auditors' specialization is better valued separately than combined.

6.7 Additional Tests

This section reports the additional analyses performed (apart from the additional regression analyses discussed in 6.1 to 6.9 to check for the sensitivity and robustness of the primary model.

6.7.1 Collinearity Diagnostics

Firstly, collinearity diagnostics are performed to detect the degree of multicollinearity in the particular situation of this study. The results reported in this section are related to the primary model using the HSIC ranking method in proportion to audit fees. Other models examined in the study are also tested for but results do not indicate any significant differences. The condition index is used as a rule of thumb for

multicollinearity. Results in Table 6.45 shows the highest value for the condition index is approximately 24 for 2004, 25 for 2005 and 29 for 2006, which is within the threshold of 10 to 30, indicating moderate to strong multicollinearity (Gujarati 2003). This is not considered as a major problem of the model because the model has a relatively high R^2 and the condition index value is not particularly high. Also, the VIF for the three years is less than 10, which indicates there is not much of a collinearity problem according to the rule of thumb suggested by Gujarati (2003).

Table 6.25
Collinearity Diagnostics of the Primary Model
HSIC Ranking Method in Proportion to Audit Fees

Dimension	2004		2005		2006	
	Eigenvalue	Condition Index	Eigenvalue	Condition Index	Eigenvalue	Condition Index
1	8.872	1.000	9.076	1.000	8.980	1.000
2	1.663	2.310	1.800	2.245	2.034	2.101
3	1.170	2.754	1.144	2.817	1.312	2.616
4	1.107	2.832	1.085	2.892	1.137	2.810
5	1.086	2.859	1.043	2.950	0.962	3.056
6	0.988	2.997	0.980	3.043	0.931	3.106
7	0.963	3.036	0.935	3.115	0.857	3.236
8	0.875	3.183	0.913	3.153	0.845	3.259
9	0.819	3.291	0.776	3.419	0.783	3.386
10	0.794	3.342	0.730	3.526	0.732	3.502
11	0.597	3.855	0.598	3.896	0.546	4.056
12	0.437	4.506	0.417	4.665	0.423	4.607
13	0.427	4.556	0.353	5.068	0.366	4.952
14	0.336	5.142	0.313	5.381	0.299	5.479
15	0.261	5.827	0.257	5.947	0.235	6.179
16	0.218	6.382	0.233	6.235	0.203	6.645
17	0.161	7.435	0.148	7.832	0.147	7.805
18	0.111	8.943	0.092	9.946	0.096	9.680
19	0.077	10.757	0.069	11.478	0.071	11.277
20	0.035	15.864	0.033	16.582	0.034	16.144
21	0.005	23.938	0.005	24.713	0.004	28.752

6.7.2 Casewise Diagnostics

Secondly, casewise diagnostics are conducted to detect any outliers contained in the sample and whether these are impacting on the results. Eleven outliers are found as shown in Appendix E. These observations are re-examined to ensure they are not errors and are excluded in order for the regression to run again. All the results presented in this study exclude all outliers.

6.7.3 Non-parametric Test (One-Sample Kolmogorov-Smirnov Test)

This sensitivity test is conducted to test the goodness-of-fit of whether the observations could have reasonably come from the specified distribution. I want to test if the residuals from the regression are normally distributed as this is a common criterion for many of the parametric tests performed.

Table 6.46 reports the normality assumption of the saved residuals. The Kolmogorov-Smirnov z-statistic of 0.770, 1.188 and 1.255 for 2004, 2005 and 2006 respectively are insignificant, indicating that the residuals are normally distributed, which is expected.

Table 6.26**One-Sample Kolmogorov-Smirnov Test of Unstandardized Residuals for 2004 to 2006**

		Unstandardized Residual 2004	Unstandardized Residual 2005	Unstandardized Residual 2006
N		1022	1091	1122
Normal Parameters ^a	Mean	.0000000	.0000000	.0000000
	Std. Deviation	.50018522	.50412504	.50266149
Most Extreme Differences	Absolute	.024	.036	.037
	Positive	.024	.036	.037
	Negative	-.018	-.016	-.020
Kolmogorov-Smirnov Z		.770	1.188	1.255
Asymp. Sig. (2-tailed)		.594	.119	.086

a. Test distribution is Normal.

6.8 Summary of Results

This section provides a summary of all the regression results presented in this chapter and in the appendices. From all the results reported, trends and new findings are detected for auditors' specialization and its impact on audit fees, which fulfils this study's research purpose and leaves room for further research in this area. The research purpose of this study is initially driven by the conflicting results of prior literature, where some studies were able to detect industry specialization premiums while others did not. Therefore, this study further examines whether industry specialization premiums exist. This was examined by using a different research setting; using different specialist definitions and applying different industry classification systems. This study also uses multiple periods for examination and defining specialists by the number of audit clients, as well as total audit fees. Evidence from this study shows that industry specialization premiums and discounts exist in some cases but the existence of these is not consistent over time. It is affected by other economic factors of the research setting as well. Three types of auditors' specialization are examined in relation to audit fee levels in this study, namely, industry, regional city and regional city-industry specialization. Different definitions

for specialists are used for testing any possible relationships and these include: 1) the ranking method in proportion to audit fees, 2) the 20% market share benchmark method, 3) the 40% market share benchmark method and 4) the ranking method in proportion to auditees. In addition, two industry classification systems are applied to these definitions, which are the HSIC and the NAICS. Both systems are examined because it is interesting to see whether results are sensitive to different industry classification systems, as well as the alternative specialist definitions. Financial institutions are also excluded as part of the extended tests and once again, results do not significantly differ from the main results, hence, the main results remain as the central focus of this study. Furthermore, this study has a primary and a secondary regression model and both have been applied to all tests. The main difference between the two models is the additional variable to control for the second-tier audit firms other than the top ten (but within the top 25 in HK) in the secondary model. However, results indicate that there are no significant differences between the two models' results, therefore, only the primary model results of the main tests and the secondary model results of the extended tests are reported. Also, the HSIC is the primary industry classification system focused in this study; therefore, results of the NAICS are reported in the appendices for second reference.

To clearly understand the relationship between auditors' specialization and the audit fee premiums/discounts, this study further tested the sample by specifically looking at certain auditee groups. Apart from examining auditor's specialization at the overall level (i.e. for all the companies in the sample), this study also examined the following auditee groups independently: 1) auditees audited by the Big 4 only to see if the Big 4 charge a fee premium or discount in relation to their specialized areas, 2) auditees audited by the non-Big 4 only to see whether smaller audit firms charge differently if they are specialized, 3) auditees that are pure Hong Kong companies to investigate whether these companies pay higher or lower audit fees for industry specialists and 4) auditees that are China-involved companies to observe the audit fees charged to these companies are influenced by the three types of auditors' specialization addressed in this study. By doing this, this study can systematically detect whether certain types of auditors' specialization (defined using audit fees and number of audit clients) warrant a fee premium/discount for certain auditees and whether results are consistent over multiple years. This section reviews the summarized results for each type of

auditors' specialization under all the tested definitions and industry classification systems.

6.8.1 Summary of Industry Specialization Results

In summary, for industry specialization under the application of the HSIC, there is some evidence of fee premiums in 2004 under some tested definitions. Under the ranking method in proportion to audit fees, a premium is found at the overall level ($p < 0.025$), the Big 4 ($p < 0.026$) and the non-Big 4 ($p < 0.008$) levels. For 2005, a less significant premium was found under the ranking method in proportion to audit fees at the Big 4 ($p < 0.046$), non-Big 4 ($p < 0.041$) level and for the pure Hong Kong auditees ($p < 0.024$). No other premiums or discounts for industry specialization were detected for 2005. Interestingly, a premium was detected for 2006 under the ranking method in proportion to audit fees for pure Hong Kong auditees ($p < 0.018$) while a discount was found for China-involved auditees ($p < 0.042$) under the 20% benchmark method and the ranking method in proportion to auditees but it was not highly significant. From this first set of results, it is clear that they are somewhat sensitive to the different definitions used for defining industry specialists. This can be further examined by looking at the application of the NAICS, which the results are reported in the appendices.

Some different results are obtained when the NAICS was applied. For 2004, premiums were detected for industry specialization at the non-Big 4 level under all definitions tested for. Much less significant premiums were detected for 2005, as opposed to 2004. A premium was detected at the non-Big 4 level under the ranking method in proportion to audit fees and one was detected for pure Hong Kong auditees under the 40% benchmark method. On the contrary, a significant discount was found for China-involved auditees in 2005 under the ranking method in proportion to auditees. Furthermore, only discounts were detected for 2006. All of these were for China-involved auditees under the two ranking methods, as well as the 20% benchmark method.

6.8.2 Summary of Regional City Specialization Results

With regards to regional city specialization, which is the main innovative contribution in this study generated more significant results. With the application of the HSIC, results provide strong evidence that a first ranked regional city specialist premium exists in 2004. It was found that a significant premium exists at the overall level and for China-involved auditees under the ranking method in proportion to audit fees, as well as the two benchmark methods. A significant premium was also detected at the Big 4 level under the 40% benchmark method. However, no significant results were found for 2005 for regional city specialization. For 2006, a significant premium was only detected at the overall level and for the China-involved auditees under the 40% benchmark method. The ranking method in proportion to auditees did not result in any significant findings regarding regional city specialization.

Similarly to the industry specialization tests, the NAICS was also applied to see whether the results are sensitive to different industry classification systems. Results happen to differ slightly but the core results remain consistent. Again, many significant results were generated for 2004. This time, a premium at the Big 4 level was found under all definitions tested for. Apart from the ranking method in proportion to auditees, a significant premium was detected for all other definitions at the overall level, as well as for the China-involved auditees. As for the HSIC, no significant results were observed for 2005 but a premium is detected in three areas (overall, Big 4 and China-involved auditees) under the 40% benchmark method. In addition, no discounts or significant negative associations were observed for regional city specialization, indicating that regional city specialists are likely to charge higher audit fees due to their familiarity and expertise in particular regional cities that auditees value.

6.8.3 Summary of Regional City-Industry Specialization Results

The joint specialization examined in this study is a re-examination of the idea used in some recent industry specialization studies including, Ferguson et al. (2006) and Francis et al. (2006), etc. The idea is to investigate whether being

an industry specialist of particular regional cities will enable auditors to charge higher or lower audit fees. Results indicate that the relationship between this joint specialization and the level of audit fees is insignificant under most of the definitions tested for in Hong Kong. However, under the NAICS ranking method in proportion to auditees, a regional city-industry specialist discount was found at the Big 4 level and non-Big 4 levels for 2004 and at both the overall and Big 4 level for 2006. This indicates a possibility that when auditors' specialization are examined on a joint basis, a different specific definition may be required, for example, more specific industry classifications and not merely relying on the amount of audit fees received to determine whether an audit firm is a specialist. Furthermore, most of the results for regional city-industry specialization from this study were associated with negative signs, which provide more evidence that by being an industry specialist of certain regional cities, it is likely that audit firms will charge lower fees due to higher audit efficiency of being so specialized.

6.8.4 Summary of Regression Results Excluding Financial Institutions

As an extended part of the study, financial institutions were excluded from the sample due to their unique nature. Some different results were obtained from the primary set of tests for all definitions under the HSIC (with the application of the secondary model). However, the main findings did not differ significantly. By excluding all the financial institutions from the sample, there is still evidence of a significant regional city specialist premium at the overall level under the ranking method in proportion to audit fees ($p < 0.007$) and the 20% benchmark method ($p < 0.006$) for 2004. A less significant regional city specialist premium was found for 2006 under the 40% benchmark method at the overall level ($p < 0.040$). More interestingly, a significant industry specialist discount was detected in 2004 ($p < 0.018$) and 2005 ($p < 0.014$) at the overall level under the ranking method in proportion to auditees, indicating audit firms may charge lower audit fees if they audit a larger number of auditees (where the larger number includes many smaller auditees paying lower fees). However, the ranking method in proportion to auditees is not considered as the most appropriate specialist definition and the other main

results of the primary specialist definitions remain consistent so the whole data set is kept for this study's main analyses. The exclusion of financial institutions is examined to provide a sensitivity test of the results only.

7.0 Conclusion, Limitations and Future Implications

7.1 Conclusion

The purpose of this study is to investigate the relationship between three types of auditors' specialization: (1) industry specialization, 2) regional city specialization and 3) regional city-industry specialization) and the level of audit fees in Hong Kong SAR over a three year period. The main research questions are: (a) whether the level of audit fees is affected by different types of auditors' specialization in Hong Kong SAR; (b) if these exist, whether auditors' specialization lead to audit fee premiums or discounts; and (c) whether the resulting premiums or discounts are charged at the overall level, at the Big 4 level, at the non-Big 4 level, for pure Hong Kong companies only or China-involved companies only. This study also examines whether auditors' specialization is consistent over time by looking at a three year period rather than just one single fiscal year as in prior specialization studies. The fundamental issue that lies beneath this study is which type of auditor specialization gives rise to an audit fee premium or discount and at which level(s). It has been examined in the past that product differentiation, brand name reputation and monopoly pricing are the main factors that cause a premium (as discussed in chapter 2). However, there has been evidence from some studies that a premium is charged by the large audit firms (Big 4) or by industry specialists, while others could not find evidence of such a premium(s). Hence, there is a motivation for conducting this study to further investigate whether industry specialization and other possible auditors' specialization give rise to an audit fee premium or discount. Also, to examine whether audit firm size (i.e. Big 4 vs. Non-Big 4) and/or auditees operating in different cities would generate different specialist premiums or discounts.

Industry specialization is one of the possible factors that researchers consider could cause an audit fee premium. This factor began to be examined in Palmrose (1986),

where measures of industry expertise were tested to see if they were related to audit fees but results indicated that audit firms did not price differently due to their expertise in a particular industry. Since then, there have been a number of other studies that investigated the relationship between audit fees and industry specialization as discussed in chapter 2 of this paper. For example, Craswell et al. (1995), Hogan and Jeter (1999) and Ferguson et al. (2006) have studied this issue.

This study is a further development of previous industry specialization studies by examining other kinds of auditors' specialization relating to audit fee levels as well as the original industry specialization. Both the Big 4 and non-Big 4 audit firms are examined to see whether audit firms of different size would charge fees differently upon being certain specialists. The audit fee model used in this study is a modified and expanded version of the one used in Ferguson et al. (2006) by including a number of additional variables to suit the Hong Kong research setting and to control for new factors identified (discussed in chapter 4). This study included all the Hong Kong listed companies for a three year period in the sample and financial institutions were excluded as an extended part of the tests to see whether these are the cause of any unusual results due to their unique nature.

The study developed three hypotheses to examine the relationship between audit fees and the three types of auditors' specialization, including industry, regional city and regional city-industry specialization. This study is to determine whether each of the types of specialization in the Hong Kong SAR audit market (as defined by various definitions in the study) will lead to audit fee premiums or discounts at different levels for specific auditees. From the results discussed and reported in chapter 6, this study defined the three types of auditors' specialization in Hong Kong based on a number of specialist definitions. These include: the ranking method in proportion to audit fees and auditees and also the 20% and 40% market share benchmark methods.

Two industry classification systems were used to test whether results would differ significantly due to classification differences, for example, Neal and Riley 2004. Craswell et al. (2003) used the ASX, which applies to Australian listed companies only. They applied this classification system because they believe that this system is tailor made for classifying companies according to the country specific factors of

Australia. It is commonly found that different industry classification systems classify companies differently from auditors. Therefore, to prevent using systems that may not be suitable for a particular research setting and being inconsistent with the auditors, the industry classification system of the research setting should be used in conjunction with a widely recognized one to ensure no significant differences exist. If significant differences exist, further investigation is needed. However, results indicate that significant differences do not exist between the two industry classification methods used in this study (i.e. HSIC and NAICS). No matter which system is applied, the study still gets similar results. From the results of this study, it is observed that the general trend of results remains constant between the two industry classifications systems used. This is reasonable to understand because the NAICS is also used by the Hong Kong Stock Exchange for classifying the listed companies in Hong Kong because many businesses trading in Hong Kong are US related so the NAICS is suitable for Hong Kong companies to a certain extent. From this, we found similar results regardless of which classification system is used and this is probably why NAICS is used in most industry specialization studies.

Overall, this study found evidence that regional city specialization led to audit fee premiums in 2004 but much weaker evidence of a premium in 2005 and 2006, which is consistent with the market conditions in Hong Kong as discussed in the background section of this paper. More interestingly, when the number of auditees is used to define specialists, opposite results seemed to appear. For example, a significant discount was detected for 2004 at the overall level under the HSIC ranking method in proportion to auditees, which is the opposite to the premium detected when audit fees was used to define regional city specialists. This maybe the reason that prior studies have always argued the number of auditees audited by an audit firm does not truly represent the market share held because if the audit firm is auditing many small auditees, it may not be able to audit larger auditees of the same industry and/or regional city as efficiently so they are not actual specialists after all. From the results in this study, audit firms that audit a large number of small clients are associated with a fee discount. This discount is probably due to the fact that if an audit firm audits a large number of small auditees, which are those that usually pay lower fees due to their smaller firm size and lower complexity level. Larger clients may also be able to pay lower fees due to more negotiating power (e.g. Casterella et al. 2004) but often, it

is not the case because larger clients are usually more complex to audit and would require more audit resources. In both cases, specialization is valuable to both small and large clients because audit efficiency and capability are important to clients of all sizes. This study included this definition to provide further evidence about whether the number of auditees is also useful for defining specialists as opposed to audit fees. Results suggested that some differences exist and these seem to be quite different from using audit fees as the measure, which is quite interesting for more exploration in future research.

For industry and regional city-industry specialization, only a small amount of evidence was found in the study under certain definitions. For example, a fee premium was detected for 2005 under the HSIC ranking method in proportion to audit fees for auditees audited by the non-Big 4 and pure Hong Kong auditees. Also, a fee premium was found in 2006 under the HSIC 40% benchmark method at the overall and Big 4 levels. However, as these results did not hold for the majority ($\geq 50\%$) of the tests, I conclude that there is insufficient significant evidence of a fee premium or discount in association with industry and regional city-industry specialization in any of the three years examined.

Overall, this study has generated a number of findings that contribute to the research area of audit pricing and auditors' specialization. Firstly, industry specialization is not the only type of auditors' specialization that affects audit fees. This study also defined regional city and regional city-industry specialization in the Hong Kong SAR audit market. Secondly, by examining a three year period in this study, it enabled the examination of whether auditors' specialization is consistent over time. Results indicate that specialists (as defined in the study) may change from year to year based on the market share held and where fee premiums are significant in one year but this does not mean they will also be significant in subsequent years due to various market conditions because they might need to adjust audit fee levels based on the economic conditions to retain customers. Thirdly, using different industry classification systems to define specialists does not tend to generate significantly different results. Fourthly, using the modified and expanded audit fee regression model, I have strong evidence of a regional city specialist premium for 2004, although the premium does not hold in 2005 and 2006 due to the changing market conditions of the research setting.

Consistent with some prior research studies on auditors' industry specialization (discussed in chapter 2), there was insufficient evidence of a fee premium or discount in association with industry specialization. In addition, regional city-industry specialization was also found to be insignificant in most cases with the exception of Hong Kong, indicating that regional city specialization is most valued by auditees in Hong Kong when the level of competition in the audit market is relatively low due to the cultural belief of "tian shi, di li, ren he". It is reasonable to conclude that higher audit fees are associated with audit firms that specialize in auditing client firms in specific regional cities, rather than in specific business industries. This is clearly shown in the results in this study since both industry and regional city-industry (both involving the industry component) did not generate any significant results but regional city specialization did.

Furthermore, the test of using the number of auditees to measure market share does not generate consistent results with the rest of the study and there is insufficient grounds to prove that this is a better measure of market share relative to audit fees. Finally, excluding financial institutions from the sample did not result in any significant differences although these have a unique nature. They did not seem to have the expected biased impact on the results.

The findings derived from this study certainly provide some insights into the research area of audit pricing and auditors' specialization. It is indeed worthwhile for further research to be conducted because people are always concerned about the ways, which auditors charge their fees and whether they are paying more or less for certain qualities possessed by the audit firms.

7.2 Discussions

7.2.1 Research Limitations

As in other research studies, there are some research limitations that could have impacted the results. These are discussed in this section.

Firstly, there have been minor data collection limitations, where not all information is obtainable from the original number of companies that should be included in the sample. Therefore, only the companies that have all the required information can be included in the sample. The sample ended up with 3,236 observations out of the original 3,275 observations. This is a limitation because the excluded companies due to unavailable information could be those that have some influence over the results. For example, these could be large companies or companies that have been issued with a qualified or modified audit opinion that would lead to differences of the variables captured. Although it is very unlikely to capture 100% of the original sample, it is better to capture as much as possible by using all available means of data collection. This will enhance the validity of the sample.

Secondly, the industry classification system used could possibly affect the results because only HSIC and NAICS were used in the study. HSIC is specifically tailored for Hong Kong companies so there will be some differences in the classification format compared with the other systems used in other countries of other studies, for example, the manufacturing industry could be broken down differently from system to system. However, it is too time consuming to classify the Hong Kong companies according to all the available classification systems. Therefore, selecting the one that would suit the Hong Kong environment most and the one that is most widely used internationally would be appropriate. If the companies were classified differently, it is possible that results could differ according to the companies being classified under different industries.

Thirdly, the results from this study only apply to Hong Kong listed companies; therefore, they cannot be generalized to say that a relationship does or does not exist between the different types of auditors' specialization and the level of audit fees in other countries. Many countries do not have as many cities as China; therefore, regional city specialization could be less relevant. It is certainly of value to countries where local companies operate in other cities and it is obviously useful if auditors are familiar with those other locations. However, this study is able to further support the fact that the level of audit

fees can be affected by industry, regional city and/or regional city-industry specialization in some countries but may not be affected in some others, depending on country-specific characteristics.

Fourthly, a three year period is examined in this study, which is different from prior industry specialization studies where only a single year of data is examined. The main purpose of this is to see whether auditors' specialization is consistent over time and whether economic factors occurring in different years would impact the results. This is a major finding of this study because this study can provide evidence that the existence of specialist premiums or discounts is not necessarily consistent over time.

The results in this study are able to show that differences exist from year to year but it is difficult to depict a certain trend since three years is insufficient to draw any conclusion regarding a particular trend. Hence, it is possible that if more years of data are examined, more interesting results may be found. This would require further effort in data collection due to the fact that Hong Kong listed companies data is not fully available on electronic databases so collecting data manually is required.

Lastly, selecting an appropriate defining method and definition for industry and regional city specialization was a difficult task because results could be sensitive to this definition as in Craswell et al. (1995). The 20% market share benchmark was selected based on Ferguson et al. (2003) but in order to ensure the results are robust, the 40% market share benchmark and the ranking method in proportion to audit fees and auditees were also used to test if the results would differ. However, no significant differences were found.

Although there are a number of limitations in the study, this study still has its contribution to the research area because it used a different research setting from prior studies as well as developed a new idea of regional city specialization as well as the combined concept of regional city-industry specialization, which were new developments from previous research. Also, the audit fee model was modified in numerous ways testing for different

results to examine the possible ways that could affect the relationship between different auditors' specialization and the audit fee premium/discount. This study was also able to demonstrate whether auditors' specialization is consistent over time by examining data for a three year period, which is also rarely found in prior industry specialization studies.

7.2.2 Future Implications

The research limitations discussed above leaves the research area regarding the association between audit fees and the different types of auditors' specialization to remain open. Some prior studies found a premium associated with industry specialization (as discussed in chapter 2), while others found no premium. In this study, premiums and/or discounts are detected under different situations and in different fiscal years, indicating economic factors of certain fiscal years may well affect audit fee levels in relation with the demand of various auditors' specializations.

Findings of this study suggest a number of future implications for this research area.

Firstly, researchers should expand their focus on auditors' specialization. Industry specialization should not be the only kind of concern, there could be other kinds of auditors' specialization which are also of value to auditors and auditees. For example, regional city and regional city-industry specialization (as examined in this study). Researchers should examine whether there are other opportunities that auditors may have realized that could add value to the services they provide and hence, being able to charge higher fees. Conversely, auditors could charge lower fees if audit costs can be lowered resulting from being various specialists. More research should be specifically tested for regional city specialization due to the significant results found in this study. Other countries with multiple cities should be examined to see whether regional city specialist fee premiums are generalizable globally.

Secondly, although this study has already used both defining methods to define specialists, there are still many possible alternative definitions that are untested. Researchers should further experiment with different definitions and investigate the extent these definitions would impact on the results of specialists. They should consider qualitative as well as quantitative definitions. For example, apart from audit firms being market leaders, they should also possess some qualities before being defined as a specialist (e.g. the number of certified public accountants and chartered accountants that an audit firm has, the number of litigations an audit firm is involved in the past five years, etc).

Thirdly, a longer research period would also be useful to examine the stability of auditors' specialization in the long run. This study used a three-year period, which is already a new development since prior studies mainly examined one year. However, three years may still be insufficient to test for long-term stability. Five to ten years may better reflect the actual situation and would also provide stronger evidence if anything significant is found because it is certainly not due to one-off factors if such a long period was examined.

Fourthly, wider research settings should be used to obtain generalizable results especially places where audit research is not as common. For example, Asian countries like Hong Kong, China, Taiwan and Japan. These are significant places, which play a dominant role in today's global economy. Merely using the US, UK and Australian data is certainly insufficient to justify any global conclusions in today's world. A combination is needed.

Finally, Big 4 and non-Big 4 audit firms should be examined on a combined as well as an individual basis because for places where the non-Big 4 plays a significant role in the audit market (e.g. Hong Kong as in this study), audit fees can be influenced by them. It is too simple to believe only the Big 4 has the power to charge more or less audit fees based on different factors like auditors' specialization and brand name reputation because smaller audit firms can also benefit from specialization as found in some previous studies reviewed in chapter 2 and also it is not proven that all auditees prefer the Big 4 over the non-Big 4. Therefore, if auditees prefer to be audited by the non-Big

4, are they willing to pay more or less audit fees and why? These questions remain for future research studies to answer. These studies will be worthwhile because the audit profession is becoming increasingly important in most parts of the world because a professional audit is legally required for public companies in most countries. Hence, what qualities audit firms possess and their practice of charging audit fees would surely concern many people.

Appendices

Appendix A

Summary Table of Prior Industry Specialization Studies

<u>Important Industry Specialization Studies</u>	<u>Setting</u>	<u>Time Period</u>	<u>No. of Observations</u>	<u>Research and Findings</u>
Palmrose (1986)	US	1980-1981	1186 firms	The Big 8 was treated as a homogeneous group of large firms. There is a positive relationship between audit fees and audit firm absolute size. There was no association found between audit fees and industry specialization as measured by relative market share.
O Keefe, King and Gaver (1994)	US	1986	935 audits	Examined whether compliance with GAAS increases with increases in audit firm's industry specialization. Results indicate that violations of GAAS decrease as audit fees increase. Industry specialization is associated with fewer GAAS violations.
Creswell, Francis and Taylor (1995)	Australia	1987	1484 firms	They found on average, industry specialist Big 8 auditors earn a 34% premium over non-specialist Big 8 auditors. The Big 8 brand name premium over the non-Big 8 was about 30% on average. Results support that industry specialization is attributed to the demand for higher quality audits from the Big 8 and that specialization is a kind of product differentiation because specialists provide higher quality services as they are usually more familiar with the industry, which enables them to audit more efficiently and effectively. This is a quality difference of the service. Results are found to be sensitive to the definition of industry specialization when 10% and 20% benchmarks were tested - there were fewer specialists when the 20% benchmark was used. No specialist premium is found with the 20% benchmark.
Cullinan (1998)	US	1993	993 plans	They used the pension plan environment to examine whether smaller audit firms can establish a brand name in a niche market through industry specialization and hence receive higher fees. Results show that the non-Big 6 with industry specialization receive premiums over the firms without industry specialization. Results suggest that the non-Big 6 may obtain and benefit from market positions in certain niche markets when industry expertise is demonstrated.
Hogan and Jeter (1999)	US	1976-1993	1044 firms	Auditor concentration levels are found to be higher in regulated industries, more concentrated industries and rapidly growing industries. Auditor concentration levels are lower in industries with high litigation risk. They found that the market leader audit firms increased their market share over time and market share of the firms with smaller market share decreased over time. Results suggest specialization could generate returns for the audit firm.

DeFond, Francis and Wong (2000)	HK	1992	348 firms	<p>They found a Big 6 premium for brand name and industry specialization. They found a 37% non-specialist Big 6 premium over non-Big 6. A 29% premium was also found for Big 6 industry specialists over the non-Big 6 specialists.</p> <p>The non-Big 6 specialization leads to production economies and could capture market share by charging less for clients that are looking for low priced audits.</p> <p>Results also suggest that to achieve higher priced audits that differentiate by quality based on industry specialization, brand name reputation is essential.</p> <p>They also found a discount fee charged by the non-Big 6 specialist. Results are found to be consistent for both large and small clients.</p>
Menon and Williams (2001)	US	1980-1997	249 firms	<p>They found audit fees increased in the 1980's but remained constant in the 1990's.</p> <p>They studied clients of the Big 6 only and found results hold after controlling for the wage increases in accounting firms, indicating there is an increase in auditing effort.</p> <p>The 1989 merger did not cause industry specialization to become significant in the results.</p> <p>They expected 2 possible effects of industry specialization:</p> <ol style="list-style-type: none"> 1. The auditor becomes the preferred choice and therefore able to charge a premium. 2. The auditor can conduct audits more economically than competitors. <p>There is no evidence of an audit fee premium resulting from industry specialization.</p>
Ferguson and Stokes (2002)	Australia	1990's 90, 92, 94, 98	4292 observations 1174, 965, 1069, 1084	<p>They found a positive relationship between industry specialization and audit fees for large clients in the Big 6 era.</p> <p>However, there is no consistent association found between industry specialization and audit fees in the Big 5 era.</p> <p>Strong support was not found for the existence of industry specialization premiums in the years after the merger (1990).</p> <p>Both the 10% and 20% market share definitions were tested and the industry specialization premium results disappeared when the 20% benchmark was used.</p> <p>They found limited evidence to show that the Big 6 obtained a premium over the non-Big 6 in industries without specialists.</p> <p>But they found the Big 6 obtained a premium over the non-Big 6 in industries with specialists.</p>

Ferguson, Francis and Stokes (2003)	Australia	1998	1046 firms	<p>They found a 24% premium associated with industry specialization when the auditor is both a city-specific leader and is one of the top two national audit firms in the industry.</p> <p>They also found the market perception and pricing of industry specialists are based on office-level and city-specific level leadership.</p> <p>They specifically found that being one of the top 2 national firms does not render a fee premium without also being a city-specific industry leader.</p> <p>Further evidence shows audit firms will become a country-level leader if their firm is a city-level industry leader for most industries.</p>
Mayhew and Wilkins (2003)	US	1991-1997	2294 offerings	<p>They extend the theory of industry specialization and audit fees by incorporating Porter's (1985) theory of competition and differentiation.</p> <p>They examined IPO audit fees to assess the use of industry specialization as a differentiation strategy used by audit firms.</p> <p>They found that as market share increases without differentiation, the audit fee charged for an IPO decreases, indicating clients could bargain for a portion of the cost savings of audit firms because the audit firms have not differentiated themselves successfully in the Porter's (1985) context.</p> <p>Generally, they considered industry specialization as a differentiation strategy among audit firms.</p> <p>They found audit firms with large market shares earn fee premiums.</p>
Carson and Fargher (2003)	Australia	1998	1057 audits	<p>They found that the fee premium attributed to industry specialization is concentrated in the audit fees paid by the largest clients in each industry.</p> <p>They found insignificant results for the premium charged by national auditors with industry specialization.</p>
Casterella, Francis, Lewis and Walker (2004)	US	1993	651 firms	<p>The sample was divided into two with the 1st half consisting of companies with assets > \$123m and the 2nd half consisting of companies with assets < \$123m.</p> <p>They also used Porter's (1985) competitive strategy analysis to explain industry specialization by the Big 6.</p> <p>They found that the 1st half of the sample did not pay a specialist premium and audit fees decrease as the company becomes large relative to its auditor's market share in the industry.</p> <p>Results indicate that audit fees are higher when clients are small and have little bargaining power but audit fees are lower when clients have greater bargaining power.</p>
Ferguson, Francis and Stokes (2006)	Australia	1998	1046 firms	<p>A premium is found for both local & national auditor industry expertise and are found to be valued by audit clients.</p> <p>Overall city-specific leadership also leads to higher audit fees.</p>

Appendix B

2004

2005

2006

Company Name	Company Name	Company Name
139 Holdings Limited	139 Holdings Limited	139 Holdings Limited
ABC Communications (Holdings) Limited	A & K Educational Software Holdings Limited	A & K Educational Software Holdings Limited
abc Multiactive Limited	AAC Acoustic Technologies Holdings Inc.	AAC Acoustic Technologies Holdings Inc.
AcrossAsia Limited	ABC Communications (Holdings) Limited	ABC Communications (Holdings) Limited
Advanced Card Systems Holdings Limited	abc Multiactive Limited	abc Multiactive Limited
AEON Credit Service (Asia) Company Limited	AcrossAsia Limited	AcrossAsia Limited
AEON Stores (Hong Kong) Co., Limited	Addchance Holdings Limited	Addchance Holdings Limited
Air China Limited	Advanced Card Systems Holdings Limited	Advanced Card Systems Holdings Limited
AKM Industrial Company Limited	AEON Credit Service (Asia) Company Limited	Advanced Semiconductor Manufacturing Corporation Limited
Alco Holdings Limited	AEON Stores (Hong Kong) Co., Limited	AEON Credit Service (Asia) Company Limited
Allan International Holdings Ltd	Agile Property Holdings Ltd.	AEON Stores (Hong Kong) Co., Limited
Allied Group Limited	Air China Limited	Agile Property Holdings Ltd.
Allied Properties (H.K.) Limited	AKM Industrial Company Limited	Air China Limited
Aluminum Corporation of China Limited	Alco Holdings Limited	AKM Industrial Company Limited
A-Max Holdings Limited	Allan International Holdings Ltd	Alco Holdings Limited
AMS Public Transport Holdings Limited	Allied Group Limited	Allan International Holdings Ltd
AMVIG Holdings Limited	Allied Properties (H.K.) Limited	Allied Group Limited
Anex International Holdings Ltd	Alltronics Holdings Ltd.	Allied Properties (H.K.) Limited
Angang Steel Company Limited	Aluminum Corporation of China Limited	Alltronics Holdings Ltd.
Anhui Conch Cement Company Limited	A-Max Holdings Limited	Aluminum Corporation of China Limited
Anhui Expressway Company Limited	AMS Public Transport Holdings Limited	A-Max Holdings Limited
APAC Resources Limited	AMVIG Holdings Limited	AMS Public Transport Holdings Limited
Apex Capital Limited	Anex International Holdings Ltd	AMVIG Holdings Limited
Applied Development Holdings Limited	Angang Steel Company Limited	Anex International Holdings Ltd
APT Satellite Holdings Limited	Anhui Conch Cement Company Limited	Angang Steel Company Limited
Aptus Holdings Limited	Anhui Expressway Company Limited	Anhui Conch Cement Company Limited
Argos Enterprise (Holdings) Limited	APAC Resources Limited	Anhui Expressway Company Limited
Armitage Technologies Holdings Limited	Apex Capital Limited	Anhui Expressway Company Limited
Arnhold Holdings Limited	Applied Development Holdings Limited	Anhui Tianda Oil Pipe Co., Limited
Art Textile Technology International Company Limited	APT Satellite Holdings Limited	APAC Resources Limited
Artel Solutions Group Holdings Limited	Aptus Holdings Limited	Apex Capital Limited
Artfield Group Limited	Argos Enterprise (Holdings) Limited	Applied Development Holdings Limited
Arts Optical International Holdings Limited	Armitage Technologies Holdings Limited	APT Satellite Holdings Limited
A-S China Plumbing Products Limited	Arnhold Holdings Limited	Aptus Holdings Limited
Asia Commercial Holdings Ltd	Art Textile Technology International Company Limited	Armitage Technologies Holdings Limited
Asia Financial Holdings Ltd.	Artel Solutions Group Holdings Limited	Arnhold Holdings Limited
Asia Orient Holdings Limited	Artfield Group Limited	Art Textile Technology International Company Limited
Asia Resources Holdings Limited	Arts Optical International Holdings Limited	Artfield Group Limited
Asia Satellite Telecommunications Holdings Limited	A-S China Plumbing Products Limited	Arts Optical International Holdings Limited
Asia Standard Hotel Group Limited	Asia Commercial Holdings Ltd	A-S China Plumbing Products Limited
Asia Standard International Ltd	Asia Financial Holdings Ltd.	Asia Commercial Holdings Ltd
Asia TeleMedia Limited	Asia Orient Holdings Limited	Asia Financial Holdings Ltd.
Asia Tele-Net & Technology Corporation Limited	Asia Resources Holdings Limited	Asia Orient Holdings Limited
Asia Zirconium Limited	Asia Satellite Telecommunications Holdings Limited	Asia Resources Holdings Limited
Asian Information Resources (Holdings) Limited	Asia Standard Hotel Group Limited	Asia Satellite Telecommunications Holdings Limited
Asian Union New Media (Group) Limited	Asia Standard International Ltd	Asia Standard Hotel Group Limited
ASM Pacific Technology Limited	Asia TeleMedia Limited	Asia Standard International Ltd
Associated International Hotels Limited	Asia Tele-Net & Technology Corporation Limited	Asia TeleMedia Limited
Aurora Global Investment Holdings Limited	Asia Zirconium Limited	Asia Tele-Net & Technology Corporation Limited
Automated Systems Holdings Limited	Asian Information Resources (Holdings) Limited	Asia Zirconium Limited
AV Concept Holdings Limited	Asian Union New Media (Group) Limited	Asian Information Resources (Holdings) Limited
AviChina Industry & Technology Company Limited	ASM Pacific Technology Limited	Asian Union New Media (Group) Limited
B M Intelligence International Limited	Associated International Hotels Limited	ASM Pacific Technology Limited
B. A. L. Holdings Limited	Aurora Global Investment Holdings Limited	Associated International Hotels Limited
BALtrans Holdings Limited	Automated Systems Holdings Limited	AUJPI Group Holding Co., Limited
Bank of East Asia Limited, The	AV Concept Holdings Limited	Aurora Global Investment Holdings Limited
Baoye Group Company Limited	AviChina Industry & Technology Company Limited	Automated Systems Holdings Limited
Beauforte Investors Corp. Ltd	B M Intelligence International Limited	AV Concept Holdings Limited
Beijing Beida Jade Bird Universal Sci-Tech Company Limited	B. A. L. Holdings Limited	AviChina Industry & Technology Company Limited
Beijing Capital International Airport Company Limited	BALtrans Holdings Limited	B M Intelligence International Limited
Beijing Capital Land Ltd.	Bank of Communications Co., Ltd.	B. A. L. Holdings Limited
Beijing Development (Hong Kong) Limited	Bank of East Asia Limited, The	BALtrans Holdings Limited
Beijing Enterprises Holdings Limited	Baoye Group Company Limited	Bank of Communications Co., Ltd.
Beijing Media Corporation Limited	Beauforte Investors Corp. Ltd	Bank of East Asia Limited, The
Beijing North Star Company Limited	Beijing Beida Jade Bird Universal Sci-Tech Company Limited	Baoye Group Company Limited
Beiren Printing Machinery Holdings Limited	Beijing Capital International Airport Company Limited	Beauforte Investors Corp. Ltd
Benefun International Holdings Limited	Beijing Capital Land Ltd.	Bauhaus International (Holdings) Limited
BEP International Holdings Limited	Beijing Development (Hong Kong) Limited	Beijing Beida Jade Bird Universal Sci-Tech Company Limited
Berjaya Holdings (HK) Ltd	Beijing Enterprises Holdings Limited	Beijing Capital International Airport Company Limited
Bestway International Holdings Limited	Beijing Media Corporation Limited	Beijing Capital Land Ltd.
BIG Media Group Limited	Beijing North Star Company Limited	Beijing Development (Hong Kong) Limited
Blu Spa Holdings Limited	Beiren Printing Machinery Holdings Limited	Beijing Enterprises Holdings Limited
BOC Hong Kong (Holdings) Limited	Benefun International Holdings Limited	Beijing North Star Company Limited
Bonjour Holdings Limited	BEP International Holdings Limited	Beijing Media Corporation Limited
Bossini International Holdings Limited	Berjaya Holdings (HK) Ltd	Beijing North Star Company Limited
Bright International Group Limited	Bestway International Holdings Limited	Beiren Printing Machinery Holdings Limited
Brilliance China Automotive Holdings Limited	BIG Media Group Limited	Benefun International Holdings Limited
Broad Intelligence International Pharmaceutical Holdings Limited	Biosino Bio-Technology and Science Incorporation	BEP International Holdings Limited
Build King Holdings Limited	Blu Spa Holdings Limited	Berjaya Holdings (HK) Ltd
Buildmore International Limited	BOC Hong Kong (Holdings) Limited	Bestway International Holdings Limited
Burwill Holdings Limited	Bonjour Holdings Limited	Buildmore International Holdings Limited
BYD Company Limited	Bossini International Holdings Limited	BIG Media Group Limited
C.C.Land Holdings Limited	Bright International Group Limited	Biosino Bio-Technology and Science Incorporation
C.P. Pokphand Company Limited	Brilliance China Automotive Holdings Limited	Blu Spa Holdings Limited
Cafe de Coral Holdings Limited	Broad Intelligence International Pharmaceutical Holdings Limited	Bonjour Holdings Limited
Capinfo Company Limited	Build King Holdings Limited	Bossini International Holdings Limited
Capital Estate Limited	Buildmore International Limited	Bright International Group Limited
Capital Publications Limited	Burwill Holdings Limited	Brilliance China Automotive Holdings Limited
Capital Strategic Investment Limited	BYD Company Limited	Broad Intelligence International Pharmaceutical Holdings Limited
Cardlink Technology Group Limited	Byford International Limited	Build King Holdings Limited
Carco Holdings Limited	C.C.Land Holdings Limited	Buildmore International Limited
Carry Wealth Holdings Limited	C.P. Pokphand Company Limited	Burwill Holdings Limited
CASH Financial Services Group Limited	Cafe de Coral Holdings Limited	BYD Company Limited
CASH Retail Management Group Limited	Capinfo Company Limited	Byford International Limited
CASIL Telecommunications Holdings Limited	Capital Estate Limited	C.C.Land Holdings Limited
		C.P. Pokphand Company Limited
		Cafe de Coral Holdings Limited
		Capinfo Company Limited
		Capital Estate Limited
		Capinfo Company Limited

CATIC Shenzhen Holdings Limited	Cardlink Technology Group Limited	Capital Strategic Investment Limited
CCID Consulting Company Limited	Carico Holdings Limited	Cardlink Technology Group Limited
CCT Tech International Limited	Carry Wealth Holdings Limited	Carico Holdings Limited
CCT Telecom Holdings Limited	CASH Financial Services Group Limited	Carry Wealth Holdings Limited
CEC International Holdings Limited	CASH Retail Management Group Limited	CASH Financial Services Group Limited
Celestial Asia Securities Holdings Limited	CASIL Telecommunications Holdings Limited	CASH Retail Management Group Limited
Century City International Holdings Ltd	Cathay Pacific Airways Limited	CASIL Telecommunications Holdings Limited
Century Legend (Holdings) Limited	CATIC International Holdings Limited	Cathay Pacific Airways Limited
Century Sunshine Ecological Technology Holdings Limited	CATIC Shenzhen Holdings Limited	CATIC International Holdings Limited
Champion Technology Holdings Limited	CCID Consulting Company Limited	CCID Consulting Company Limited
Chanco International Group Limited	CCT Tech International Limited	CCT Tech International Limited
Changchun Da Xing Pharmaceutical Company Limited	CCT Telecom Holdings Limited	CCT Telecom Holdings Limited
Changmao Biochemical Engineering Company Limited	CEC International Holdings Limited	CEC International Holdings Limited
Chaoda Modern Agriculture (Holdings) Limited	Celestial Asia Securities Holdings Limited	Celestial Asia Securities Holdings Limited
Chen Hsong Holdings Limited	Century City International Holdings Ltd	Century City International Holdings Ltd
Chengdu PUTIAN Telecommunications Cable Company Limited	Century Legend (Holdings) Limited	Century Legend (Holdings) Limited
Cheong Ming Investments Limited	Century Sunshine Ecological Technology Holdings Limited	Century Sunshine Ecological Technology Holdings Limited
Cheuk Nang (Holdings) Limited	Champion Technology Holdings Limited	Champion Real Estate Investment Trust
Cheung Kong (Holdings) Limited	Chanco International Group Limited	Champion Technology Holdings Limited
Cheung Kong Infrastructure Holdings Limited	Changmao Biochemical Engineering Company Limited	Chanco International Group Limited
Chevalier International Holdings Limited	Chaoda Modern Agriculture (Holdings) Limited	Changmao Biochemical Engineering Company Limited
Chevalier iTech Holdings Limited	Chen Hsong Holdings Limited	Chaoda Modern Agriculture (Holdings) Limited
Chi Cheung Investment Co Ltd	Chengdu PUTIAN Telecommunications Cable Company Limited	Chen Hsong Holdings Limited
Chia Hsin Cement Greater China Holding Corporation	Cheong Ming Investments Limited	Chengdu PUTIAN Telecommunications Cable Company Limited
Chia Tai Enterprises International Limited	Cheuk Nang (Holdings) Limited	Cheong Ming Investments Limited
China Aerospace International Holdings Limited	Cheung Kong (Holdings) Limited	Cheuk Nang (Holdings) Limited
China Agrotech Holdings Limited	Cheung Kong Infrastructure Holdings Limited	Cheung Kong (Holdings) Limited
China Assets (Holdings) Limited	Chevalier International Holdings Limited	Cheung Kong Infrastructure Holdings Limited
China Best Group Holding Limited	Chevalier iTech Holdings Limited	Chevalier International Holdings Limited
China Chenglong Development Group Limited	Chi Cheung Investment Co Ltd	Chevalier iTech Holdings Limited
China Chief Cable TV Group Limited	Chia Hsin Cement Greater China Holding Corporation	Chevalier Tech Holdings Limited
China Conservational Power Holdings Limited	Chia Tai Enterprises International Limited	Chi Cheung Investment Co Ltd
China Credit Holdings Limited	China Aerospace International Holdings Limited	Chia Hsin Cement Greater China Holding Corporation
CHINA CYBER PORT (INTL.)	China Agrotech Holdings Limited	Chia Tai Enterprises International Limited
China Data Broadcasting Holdings Limited	China Assets (Holdings) Limited	China Aerospace International Holdings Limited
China Eastern Airlines Corporation Limited	China Best Group Holding Limited	China Agrotech Holdings Limited
China Electronics Corporation Holdings Company Limited	China Chenglong Development Group Limited	China Assets (Holdings) Limited
China Elegance (Holdings) Limited	China Chief Cable TV Group Limited	China Best Group Holding Limited
China Energy Development Holdings Limited	China Conservational Power Holdings Limited	China BlueChemical Limited
China Everbright International Limited	China Construction Bank Corporation	China Chenglong Development Group Limited
China Everbright Limited	China COSCO Holdings Company Limited	China Chief Cable TV Group Limited
China Fair Land Holdings Limited	China Credit Holdings Limited	China Coal Energy Company Limited
China Financial Industry Investment Fund Limited	CHINA CYBER PORT (INTL.)	China Communications Construction Company Limited
China Fire Safety Enterprise Group Holdings Limited	China Data Broadcasting Holdings Limited	China Communications Services Corporation Limited
China Force Oil & Grains Industrial Holdings Co., Ltd.	China Eastern Airlines Corporation Limited	China Conservational Power Holdings Limited
China Gas Holdings Limited	China Electronics Corporation Holdings Company Limited	China COSCO Holdings Company Limited
China Golden Development Holdings Limited	China Elegance (Holdings) Limited	China Credit Holdings Limited
China Grand Forestry Resources Group Limited	China Energy Development Holdings Limited	CHINA CYBER PORT (INTL.)
China Green (Holdings) Limited	China Everbright International Limited	China Eastern Airlines Corporation Limited
China Haidian Holdings Limited	China Everbright Limited	China Electronics Corporation Holdings Company Limited
China Healthcare Holdings Limited	China Fair Land Holdings Limited	China Elegance (Holdings) Limited
China Insurance International Holdings Company Limited	China Financial Industry Investment Fund Limited	China Energy Development Holdings Limited
China Investment Fund Company Limited	China Fire Safety Enterprise Group Holdings Limited	China Everbright International Limited
China Investments Holdings Limited	China Flavors and Fragrances Company Limited	China Everbright Limited
CHINA LEASON INV.GP.	China Force Oil & Grains Industrial Holdings Co., Ltd.	China Fair Land Holdings Limited
China Life Insurance Company Limited	China Gas Holdings Limited	China Financial Industry Investment Fund Limited
China LotSynergy Holdings Limited	China Glass Holdings Limited	China Fire Safety Enterprise Group Holdings Limited
China Medical Science Limited	China Golden Development Holdings Limited	China Flavors and Fragrances Company Limited
China Mengniu Dairy Company Limited	China Grand Forestry Resources Group Limited	China Force Oil & Grains Industrial Holdings Co., Ltd.
China Merchants China Direct Investments Limited	China Green (Holdings) Limited	China Gas Holdings Limited
China Merchants Holdings (International) Company Limited	China Haidian Holdings Limited	China Glass Holdings Limited
China Metal International Holdings Inc.	China Haisheng Juice Holdings Co., Limited	China Golden Development Holdings Limited
China Mining Resources Group Limited	China Healthcare Holdings Limited	China Grand Forestry Resources Group Limited
China Mobile Limited	China Infrastructure Machinery Holdings Limited	China Green (Holdings) Limited
China Motion Telecom International Limited	China Insurance International Holdings Company Limited	China Haidian Holdings Limited
China Motor Bus Company Ltd	China Investment Fund Company Limited	China Haisheng Juice Holdings Co., Limited
China National Resources Development Holdings Limited	China Investments Holdings Limited	China Healthcare Holdings Limited
China Netcom Group Corporation (Hong Kong) Limited	CHINA LEASON INV.GP.	China Huiyuan Juice Group Limited
China Oil And Gas Group Limited	China Life Insurance Company Limited	China Infrastructure Machinery Holdings Limited
China Oilfield Services Limited	China LotSynergy Holdings Limited	China Insurance International Holdings Company Limited
China Oriental Group Company Limited	China Medical Science Limited	China Investment Fund Company Limited
China Overseas Land & Investment Limited	China Mengniu Dairy Company Limited	China Investments Holdings Limited
China Pharmaceutical Group Limited	China Merchants China Direct Investments Limited	CHINA LEASON INV.GP.
China Photar Electronics Group Limited	China Merchants Holdings (International) Company Limited	China LotSynergy Holdings Limited
China Power International Development Limited	China Metal International Holdings Inc.	China Medical Science Limited
China Primary Resources Holdings Limited	China Mining Resources Group Limited	China Mengniu Dairy Company Limited
China Rare Earth Holdings Limited	China Mobile Limited	China Merchants Bank Co., Limited
China Resources Enterprise, Limited	China Motion Telecom International Limited	China Merchants China Direct Investments Limited
China Resources Land Limited	China Motor Bus Company Ltd	China Merchants Holdings (International) Company Limited
China Resources Logic Limited	China National Building Material Company Limited	China Metal International Holdings Inc.
China Resources Power Holdings Company Limited	China National Resources Development Holdings Limited	China Mining Resources Group Limited
China Rich Holdings Limited	China Netcom Group Corporation (Hong Kong) Limited	China Motion Telecom International Limited
China Sciences Conservational Power Limited	China Oil And Gas Group Limited	China Motor Bus Company Ltd
China Sci-Tech Holdings Limited	China Oilfield Services Limited	China National Building Material Company Limited
China Seven Star Shopping Limited	China Oriental Group Company Limited	China National Resources Development Holdings Limited
China Shineway Pharmaceutical Group Limited	China Overseas Land & Investment Limited	China Oil And Gas Group Limited
China Shipping Container Lines Company Limited	China Petroleum & Chemical Corporation	China Oilfield Services Limited
China Shipping Development Company Limited	China Pharmaceutical Group Limited	China Oriental Group Company Limited
China Solar Energy Holdings Limited	China Photar Electronics Group Limited	China Overseas Land & Investment Limited
China Southern Airlines Company Limited	China Power International Development Limited	China Pharmaceutical Group Limited
China Star Entertainment Limited	China Primary Resources Holdings Limited	China Photar Electronics Group Limited
China Strategic Holdings Limited	China Rare Earth Holdings Limited	China Power International Development Limited
China Telecom Corporation Limited	China Resources Enterprise, Limited	China Primary Resources Holdings Limited
China Travel International Investment Hong Kong Limited	China Resources Land Limited	China Properties Group Limited
China Vanguard Group Limited	China Resources Logic Limited	China Rare Earth Holdings Limited
China Velocity Group Limited	China Resources Power Holdings Company Limited	China Resources Enterprise, Limited
China Water Affairs Group Limited	China Rich Holdings Limited	China Resources Land Limited
China Water Industry Group Limited	China Sci-Tech Holdings Limited	China Resources Logic Limited
China Wireless Technologies Limited	China Seven Star Shopping Limited	China Resources Power Holdings Company Limited
China.com Inc.	China Shenhua Energy Company Limited	China Rich Holdings Limited
		China Sci-Tech Holdings Limited

China Wireless Technologies Limited	China Seven Star Shopping Limited	China Rich Holdings Limited
China.com Inc.	China Shenhua Energy Company Limited	China Sci-Tech Holdings Limited
China-Hongkong Photo Products Holdings Limited	China Shineway Pharmaceutical Group Limited	China Seven Star Shopping Limited
Chinasoft International Limited	China Shipping Container Lines Company Limited	China Shineway Pharmaceutical Group Limited
Chinese Estates Holdings Limited	China Shipping Development Company Limited	China Shipping Container Lines Company Limited
Chinese People Gas Holdings Company Limited	China Solar Energy Holdings Limited	China Shipping Development Company Limited
Ching Hing (Holdings) Limited	China Southern Airlines Company Limited	China Solar Energy Holdings Limited
Chinney Alliance Group	China Special Steel Holdings Company Limited	China Southern Airlines Company Limited
Chinney Investments Limited	China Star Entertainment Limited	China Special Steel Holdings Company Limited
Chitaly Holdings Limited	China State Construction International Holdings Limited	China Star Entertainment Limited
Chong Hing Bank Limited	China Strategic Holdings Limited	China State Construction International Holdings Limited
Chongqing Iron & Steel Company Limited	China Telecom Corporation Limited	China Strategic Holdings Limited
Chow Sang Sang Holdings International Ltd	China Ting Group Holdings Limited	China Ting Group Holdings Limited
Chu Kong Shipping Development Company Limited	China Travel International Investment Hong Kong Limited	China Travel International Investment Hong Kong Limited
Chuang's China Investments Limited	China Treasure (Greater China) Investments Limited	China Treasure (Greater China) Investments Limited
Chuang's Consortium International Limited	China Vanguard Group Limited	China Vanguard Group Limited
Chun Wo Holdings Limited	China Velocity Group Limited	China Velocity Group Limited
Chung Tai Printing Holdings Limited	China Water Affairs Group Limited	China Water Affairs Group Limited
CL Holdings Limited	China Water Industry Group Limited	China Water Industry Group Limited
Cisco Systems, Inc.	China Wireless Technologies Limited	China Wireless Technologies Limited
CITIC 21CN Company Limited	China Yurun Food Group Limited	China Yurun Food Group Limited
CITIC International Financial Holdings Limited	China.com Inc.	China.com Inc.
CITIC Pacific Limited	China-Hongkong Photo Products Holdings Limited	China-Hongkong Photo Products Holdings Limited
CITIC Resources Holdings Limited	Chinainfo Holdings Limited	Chinainfo Holdings Limited
City e-Solutions Limited	Chinasoft International Limited	Chinasoft International Limited
City Telecom (H.K.) Limited	Chinese Estates Holdings Limited	Chinese Estates Holdings Limited
CK Life Sciences Intl. (Holdings) Inc.	Chinese People Gas Holdings Company Limited	Chinese People Gas Holdings Company Limited
Clear Media Limited	Ching Hing (Holdings) Limited	Ching Hing (Holdings) Limited
Climax International Company Limited	Chinney Alliance Group	Chinney Alliance Group
CLP Holdings Limited	Chinney Investments Limited	Chinney Investments Limited
CNOOC Limited	Chitaly Holdings Limited	Chitaly Holdings Limited
CNPC (Hong Kong) Limited	Chong Hing Bank Limited	Chong Hing Bank Limited
CNT Group Limited	Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Company Limited
Coastal Greenland Limited	Chow Sang Sang Holdings International Ltd	Chow Sang Sang Holdings International Ltd
COFCO International Limited	Chu Kong Shipping Development Company Limited	Chu Kong Shipping Development Company Limited
COL Capital Limited	Chuang's China Investments Limited	Chuang's China Investments Limited
Comba Telecom Systems Holdings Limited	Chuang's Consortium International Limited	Chuang's Consortium International Limited
Compass Pacific Holdings Limited	Chun Wo Holdings Limited	Chun Wo Holdings Limited
Computech Holdings Limited	Chung Tai Printing Holdings Limited	Chung Tai Printing Holdings Limited
Computer & Technologies Holdings Limited	CIG Yangtze Ports PLC	CIG Yangtze Ports PLC
Concepta Investments Limited	CITIC 21CN Company Limited	CITIC 21CN Company Limited
Continental Holdings Limited	CITIC International Financial Holdings Limited	CITIC International Financial Holdings Limited
Convenience Retail Asia Limited	CITIC Pacific Limited	CITIC Pacific Limited
Core Healthcare Investment Holdings Limited	CITIC Resources Holdings Limited	CITIC Resources Holdings Limited
COSCO International Holdings Limited	City e-Solutions Limited	City e-Solutions Limited
COSCO Pacific Limited	City Telecom (H.K.) Limited	City Telecom (H.K.) Limited
Coslight Technology International Group Limited	CK Life Sciences Intl. (Holdings) Inc.	CK Life Sciences Intl. (Holdings) Inc.
Cosmopolitan International Holdings Limited	Clear Media Limited	Clear Media Limited
Cosmos Machinery Enterprises Limited	Climax International Company Limited	Climax International Company Limited
Co-Winner Enterprise Limited	CLP Holdings Limited	CLP Holdings Limited
Creative Energy Solutions Holdings Limited	CMA Logistics Co Ltd	CMA Logistics Co Ltd
Crocodile Garments Limited	CNOOC Limited	CNOOC Limited
Cross-Harbour (Holdings) Limited, The	CNPC (Hong Kong) Limited	CNPC (Hong Kong) Limited
CSMC Technologies Corporation	CNT Group Limited	CNT Group Limited
Culturecom Holdings Limited	Coastal Greenland Limited	Coastal Greenland Limited
Dah Sing Banking Group Limited	COFCO International Limited	COFCO International Limited
Dah Sing Financial Holdings Limited	COL Capital Limited	COL Capital Limited
Dahe Media Co., Ltd.	Comba Telecom Systems Holdings Limited	Comba Telecom Systems Holdings Limited
Daido Group Limited	Compass Pacific Holdings Limited	Compass Pacific Holdings Limited
Daisho Microline Holdings Limited	Computech Holdings Limited	Computech Holdings Limited
Daiwa Associate Holdings Limited	Computer & Technologies Holdings Limited	Computer & Technologies Holdings Limited
Dan Form Holdings Company Limited	Concepta Investments Limited	Concepta Investments Limited
Daqing Petroleum and Chemical Group Limited	Continental Holdings Limited	Continental Holdings Limited
Datang International Power Generation Co., Ltd.	Convenience Retail Asia Limited	Convenience Retail Asia Limited
Datronix Holdings Limited	Co-Prosperity Holdings Limited	Co-Prosperity Holdings Limited
Dawnrays Pharmaceutical (Holdings) Limited	Core Healthcare Investment Holdings Limited	Core Healthcare Investment Holdings Limited
Decca Holdings Limited	COSCO International Holdings Limited	COSCO International Holdings Limited
Denway Motors Limited	COSCO Pacific Limited	COSCO Pacific Limited
Deson Development International Holdings Limited	Coslight Technology International Group Limited	Coslight Technology International Group Limited
DeTeam Company Limited	Cosmopolitan International Holdings Limited	Cosmopolitan International Holdings Limited
Dickson Concepts (International) Limited	Cosmos Machinery Enterprises Limited	Cosmos Machinery Enterprises Limited
Dickson Group Holdings Limited	Co-Winner Enterprise Limited	Co-Winner Enterprise Limited
Digital China Holdings Ltd.	Crocodile Garments Limited	Crocodile Garments Limited
Digitalhongkong.com	Cross-Harbour (Holdings) Limited, The	Cross-Harbour (Holdings) Limited, The
Dongfang Electrical Machinery Company Limited	CSMC Technologies Corporation	CSMC Technologies Corporation
Dragon Hill Holdings Limited	Culturecom Holdings Limited	Culturecom Holdings Limited
Dream International Limited	Dah Sing Banking Group Limited	Dah Sing Banking Group Limited
DVN (Holdings) Limited	Dah Sing Financial Holdings Limited	Dah Sing Financial Holdings Limited
Dynamic Global Holdings Limited	Dahe Media Co., Ltd.	Dahe Media Co., Ltd.
Dynamic Holdings Limited	Daido Group Limited	Daido Group Limited
Dynasty Fine Wines Group Limited	Daisho Microline Holdings Limited	Daisho Microline Holdings Limited
E. Bon Holdings Limited	Daiwa Associate Holdings Limited	Daiwa Associate Holdings Limited
E2-Capital (Holdings) Limited	Dan Form Holdings Company Limited	Dan Form Holdings Company Limited
Eagle Nice (International) Holdings Limited	Daqing Petroleum and Chemical Group Limited	Dan Form Holdings Company Limited
Earnest Investments Holdings Limited	Datang International Power Generation Co., Ltd.	Daqing Petroleum and Chemical Group Limited
Easynit Enterprises Holdings Limited	Datronix Holdings Limited	Datang International Power Generation Co., Ltd.
Easynit International Holdings Limited	Dawnrays Pharmaceutical (Holdings) Limited	Datronix Holdings Limited
EC-Founder (Holdings) Company Limited	Decca Holdings Limited	Dawnrays Pharmaceutical (Holdings) Limited
EcoGreen Fine Chemicals Group Limited	Denway Motors Limited	DBA Telecommunication (Asia) Holdings Limited
Eco-Tek Holdings Limited	Deson Development International Holdings Limited	Decca Holdings Limited
eCyberChina Holdings Limited	DeTeam Company Limited	Denway Motors Limited
eForce Holdings Limited	Dickson Concepts (International) Limited	Deson Development International Holdings Limited
e-KONG Group Limited	Dickson Group Holdings Limited	DeTeam Company Limited
Elegance International Holdings Limited	Digital China Holdings Ltd.	Dickson Concepts (International) Limited
Emperor Entertainment Group Limited	Digitalhongkong.com	Digital China Holdings Ltd.
Emperor Entertainment Hotel Limited	Dongfang Electrical Machinery Company Limited	Digitalhongkong.com
Emperor International Holdings Limited	Dongfeng Motor Group Company Limited	Dongfang Electrical Machinery Company Limited
Enerchina Holdings Limited	Dragon Hill Holdings Limited	Dongfeng Motor Group Company Limited
ENM Holdings Limited	Dream International Limited	Dragon Hill Holdings Limited
EPI (Holdings) Limited	DVN (Holdings) Limited	Dream International Limited

ePro Limited	Dynamic Global Holdings Limited	DVN (Holdings) Limited
Era Information & Entertainment Limited	Dynamic Holdings Limited	Dynamic Global Holdings Limited
Esprit Holdings Limited	Dynasty Fine Wines Group Limited	Dynamic Holdings Limited
Essex Bio-Technology Limited	E. Bon Holdings Limited	Dynasty Fine Wines Group Limited
eSun Holdings Limited	E2-Capital (Holdings) Limited	E. Bon Holdings Limited
Ever Fortune International Holdings Limited	Eagle Nice (International) Holdings Limited	E2-Capital (Holdings) Limited
Everbest Century Holdings Limited	Earnest Investments Holdings Limited	Eagle Nice (International) Holdings Limited
Everest International Investments Limited	Easyknit Enterprises Holdings Limited	Earnest Investments Holdings Limited
Everpride Biopharmaceutical Company Limited	Easyknit International Holdings Limited	Easyknit Enterprises Holdings Limited
EVI Education Asia Limited	EC-Founder (Holdings) Company Limited	Easyknit International Holdings Limited
Excel Technology International Holdings Limited	EcoGreen Fine Chemicals Group Limited	EC-Founder (Holdings) Company Limited
Extrawell Pharmaceutical Holdings Limited	Eco-Tek Holdings Limited	EcoGreen Fine Chemicals Group Limited
Ezcom Holdings Limited	eCyberChina Holdings Limited	Eco-Tek Holdings Limited
Fairwood Holdings Limited	eForce Holdings Limited	eCyberChina Holdings Limited
Far East Consortium International Limited	EganaGoldpfeil (Holdings) Limited	eForce Holdings Limited
Far East Holdings International Limited	e-KONG Group Limited	EganaGoldpfeil (Holdings) Limited
Far East Hotels & Entertainment Limited	Elegance International Holdings Limited	e-KONG Group Limited
Fast Systems Technology (Holdings) Limited	EMER International Group Limited	Elegance International Holdings Limited
FinTronics Holdings Company Limited	Emperor Entertainment Group Limited	Embrv Holdings Limited
First Mobile Group Holdings Limited	Emperor Entertainment Hotel Limited	EMER International Group Limited
First Natural Foods Holdings Limited	Emperor International Holdings Limited	Emperor Entertainment Group Limited
First Pacific Company Limited	Enerchina Holdings Limited	Emperor Entertainment Hotel Limited
First Shanghai Investments Ltd	ENM Holdings Limited	Emperor International Holdings Limited
First Sign International Holdings Limited	EPI (Holdings) Limited	Enerchina Holdings Limited
First Tractor Company Limited	ePro Limited	ENM Holdings Limited
FlexSystem Holdings Limited	Era Information & Entertainment Limited	Enric Energy Equipment Holdings Limited
Fong's Industries Company Limited	Espco Technology Holdings Limited	EPI (Holdings) Limited
Forefront International Holdings Limited	Esprit Holdings Limited	ePro Limited
Fortuna International Holdings Limited	Essex Bio-Technology Limited	Era Information & Entertainment Limited
Fortune Telecom Holdings Limited	eSun Holdings Limited	Espco Technology Holdings Limited
Foundation Group Limited	EVA Precision Industrial Holdings Limited	Esprit Holdings Limited
Founder Holdings Limited	Ever Fortune International Holdings Limited	Essex Bio-Technology Limited
Fountain Set (Holdings) Limited	Everbest Century Holdings Limited	eSun Holdings Limited
Four Seas Food Investment Holdings Limited	Everest International Investments Limited	EVA Precision Industrial Holdings Limited
Four Seas Mercantile Holdings Limited	Everpride Biopharmaceutical Company Limited	Ever Fortune International Holdings Limited
Foxconn International Holdings Limited	EVI Education Asia Limited	Everbest Century Holdings Limited
Frankie Dominion International Limited	Excel Technology International Holdings Limited	Everest International Investments Limited
Fraser's Property (China) Limited	Extrawell Pharmaceutical Holdings Limited	Everpride Biopharmaceutical Company Limited
Freeman Corporation Limited	Fairwood Holdings Limited	EVI Education Asia Limited
FUBON BANK (HONG KONG) LIMITED	Far East Consortium International Limited	Excel Technology International Holdings Limited
Fujian Holdings Limited	Far East Holdings International Limited	Extrawell Pharmaceutical Holdings Limited
Fujikon Industrial Holdings Limited	Far East Hotels & Entertainment Limited	Fairwood Holdings Limited
Fulbond Holdings Limited	Fast Systems Technology (Holdings) Limited	Far East Consortium International Limited
Fushan International Energy Group Limited	Finet Group Limited	Far East Holdings International Limited
FX Creations International Holdings Limited	FinTronics Holdings Company Limited	Far East Hotels & Entertainment Limited
G.A. Holdings Limited	First Mobile Group Holdings Limited	Fast Systems Technology (Holdings) Limited
Galaxy Entertainment Group Limited	First Natural Foods Holdings Limited	Finet Group Limited
Galileo Capital Group Limited	First Pacific Company Limited	FinTronics Holdings Company Limited
Garron International Limited	First Shanghai Investments Ltd	First Mobile Group Holdings Limited
Gav Giano International Group Limited	First Sign International Holdings Limited	First Natural Foods Holdings Limited
Geely Automobile Holdings Limited	First Tractor Company Limited	First Pacific Company Limited
Genesis Energy Holdings Limited	FlexSystem Holdings Limited	First Shanghai Investments Ltd
Get Nice Holdings Limited	Fong's Industries Company Limited	First Sign International Holdings Limited
GFT Holdings Limited	Forefront International Holdings Limited	First Tractor Company Limited
Giordano International Limited	Fortuna International Holdings Limited	Fittec International Group Limited
Global Bio-chem Technology Group Company Limited	Fortune Telecom Holdings Limited	FlexSystem Holdings Limited
Global Digital Creations Holdings Limited	Foundation Group Limited	Fong's Industries Company Limited
Global Green Tech Group Limited	Founder Holdings Limited	Forefront International Holdings Limited
Global Link Communications Holdings Limited	Fountain Set (Holdings) Limited	Fortuna International Holdings Limited
Global Solution Engineering Limited	Four Seas Food Investment Holdings Limited	Fortune Sun (China) Holdings Limited
Global Tech (Holdings) Limited	Four Seas Mercantile Holdings Limited	Fortune Telecom Holdings Limited
Glorious Sun Enterprises Limited	Foxconn International Holdings Limited	Foundation Group Limited
Glory Future Group Limited	Frankie Dominion International Limited	Founder Holdings Limited
Glory Mark Hi-Tech (Holdings) Limited	Fraser's Property (China) Limited	Fountain Set (Holdings) Limited
Gold Peak Industries (Holdings) Limited	Freeman Corporation Limited	Four Seas Food Investment Holdings Limited
Goldbond Group Holdings Limited	FUJI Food and Catering Services Holdings Limited	Four Seas Mercantile Holdings Limited
Golden 21 Investment Holdings Limited	FUBON BANK (HONG KONG) LIMITED	Foxconn International Holdings Limited
Golden Dragon Group (Holdings) Limited	Fujian Holdings Limited	Frankie Dominion International Limited
Golden Harvest Entertainment (Holdings) Limited	Fujikon Industrial Holdings Limited	Fraser's Property (China) Limited
Golden Meditech Company Limited	Fulbond Holdings Limited	Freeman Corporation Limited
Golden Resorts Group Limited	Fushan International Energy Group Limited	FUJI Food and Catering Services Holdings Limited
Golden Resources Development International Limited	FX Creations International Holdings Limited	FUBON BANK (HONG KONG) LIMITED
Golding Soft Limited	G.A. Holdings Limited	Fufeng Group Limited
Goldlion Holdings Limited	Galaxy Entertainment Group Limited	Fujian Holdings Limited
Goldwiz Holdings Limited	Galileo Capital Group Limited	Fujikon Industrial Holdings Limited
Golfe Concepts Holdings Limited	Garron International Limited	Fulbond Holdings Limited
Golk Holdings Limited	Gav Giano International Group Limited	Fushan International Energy Group Limited
GOME Electrical Appliances Holding Limited	Geely Automobile Holdings Limited	FX Creations International Holdings Limited
G-Prop (Holdings) Limited	Genesis Energy Holdings Limited	G.A. Holdings Limited
Grand Field Group Holdings Limited	Get Nice Holdings Limited	Galaxy Entertainment Group Limited
Grand Investment International Ltd.	GFT Holdings Limited	Galaxy Semi-Conductor Holdings Limited
Grande Holdings Ltd. The	Giordano International Limited	Galileo Capital Group Limited
Grandtop International Holdings Limited	Global Bio-chem Technology Group Company Limited	Garron International Limited
Graneagle Holdings Limited	Global Digital Creations Holdings Limited	Gav Giano International Group Limited
Great China Holdings Ltd	Global Flex Holdings Limited	Geely Automobile Holdings Limited
Great Eagle Holdings Limited	Global Green Tech Group Limited	Genesis Energy Holdings Limited
Great Wall Motor Company Limited	Global Link Communications Holdings Limited	Get Nice Holdings Limited
Great Wall Technology Company Limited	Global Solution Engineering Limited	GFT Holdings Limited
Greater China Holdings Limited	Global Tech (Holdings) Limited	Giordano International Limited
Green Energy Group Limited	Glorious Sun Enterprises Limited	Global Bio-chem Technology Group Company Limited
Greencool Technology Holdings Limited	Glory Future Group Limited	Global Digital Creations Holdings Limited
Greenfield Chemical Holdings Limited	Glory Mark Hi-Tech (Holdings) Limited	Global Flex Holdings Limited
Group Sense (International) Limited	Gold Peak Industries (Holdings) Limited	Global Green Tech Group Limited
Guangdong Investment Limited	Goldbond Group Holdings Limited	Global Link Communications Holdings Limited
Guangdong Kelon Electrical Holdings Company Limited	Golden 21 Investment Holdings Limited	Global Solution Engineering Limited
Guangdong Tannery Limited	Golden Dragon Group (Holdings) Limited	Global Tech (Holdings) Limited
Guangnan (Holdings) Limited	Golden Eagle Retail Group Limited	Glorious Sun Enterprises Limited
Guangshen Railway Company Limited	Golden Harvest Entertainment (Holdings) Limited	Glory Future Group Limited
Guangzhou Investment Company Limited	Golden Meditech Company Limited	Glory Mark Hi-Tech (Holdings) Limited
Guangzhou Pharmaceutical Company Limited	Golden Resorts Group Limited	Gold Peak Industries (Holdings) Limited

Guangzhou Shipyard International Company Limited	Golden Resources Development International Limited	Goldbond Group Holdings Limited
Guo Xin Group Limited	Golding Soft Limited	Golden 21 Investment Holdings Limited
Guoco Group Limited	Goldlion Holdings Limited	Golden Dragon Group (Holdings) Limited
G-Vision International (Holdings) Limited	Goldwiz Holdings Limited	Golden Eagle Retail Group Limited
GZI Transport Limited	Golife Concepts Holdings Limited	Golden Harvest Entertainment (Holdings) Limited
Haier Electronics Group Co., Ltd.	Golik Holdings Limited	Golden Meditech Company Limited
Hainan Meilan International Airport Company Limited	GOME Electrical Appliances Holding Limited	Golden Resorts Group Limited
Hang Fung Gold Technology Limited	Good Friend International Holdings Inc.	Golden Resources Development International Limited
Hang Lung Group Limited	G-Prop (Holdings) Limited	Golding Soft Limited
Hang Lung Properties Limited	Grand Field Group Holdings Limited	Goldlion Holdings Limited
Hang Seng Bank Limited	Grand Investment International Ltd.	Goldwiz Holdings Limited
Hang Ten Group Holdings Limited	Grande Holdings Ltd. The	Golife Concepts Holdings Limited
Hanison Construction Holdings Limited	Grandtop International Holdings Limited	Golik Holdings Limited
Hanny Holdings Limited	Graneagle Holdings Limited	GOME Electrical Appliances Holding Limited
Hans Energy Company Limited	Great China Holdings Ltd	Good Friend International Holdings Inc.
Hantec Investment Holdings Limited	Great Eagle Holdings Limited	G-Prop (Holdings) Limited
Harbin Power Equipment Company Limited	Great Wall Motor Company Limited	Grand Field Group Holdings Limited
Harbour Centre Development Limited	Great Wall Technology Company Limited	Grand Investment International Ltd.
Harmony Asset Limited	Greater China Holdings Limited	Grande Holdings Ltd. The
HC International, Inc.	GreaterChina Technology Group Ltd.	Grandtop International Holdings Limited
Henderson Investment Limited	Green Energy Group Limited	Graneagle Holdings Limited
Henderson Land Development Company Limited	Greenfield Chemical Holdings Limited	Great China Holdings Ltd
Heng Tai Consumables Group Limited	Group Sense (International) Limited	Great Eagle Holdings Limited
Hengan International Group Company Limited	GST Holdings Limited	Great Wall Motor Company Limited
Henry Group Holdings Limited	Guangdong Investment Limited	Great Wall Technology Company Limited
Herald Holdings Limited	Guangdong Kelon Electrical Holdings Company Limited	Greater China Holdings Limited
Heritage International Holdings Limited	Guangdong Nan Yue Logistics Company Limited	GreaterChina Technology Group Ltd.
Hi Sun Technology (China) Limited	Guangdong Tannery Limited	Green Energy Group Limited
High Fashion International Limited	Guangnan (Holdings) Limited	Greenfield Chemical Holdings Limited
HKC (Holdings) Limited	Guangshen Railway Company Limited	Greentown China Holdings Limited
HKC International Holdings Limited	Guangzhou Investment Company Limited	Group Sense (International) Limited
HKR International Limited	Guangzhou Pharmaceutical Company Limited	GST Holdings Limited
Hon Kwok Land Investment Company Limited	Guangzhou R&F Properties Co., Ltd.	Guangdong Investment Limited
Honesty Treasure International Holdings Limited	Guangzhou Shipyard International Company Limited	Guangdong Kelon Electrical Holdings Company Limited
Hong Kong & China Gas Company Limited, The	Guo Xin Group Limited	Guangdong Nan Yue Logistics Company Limited
Hong Kong Aircraft Engineering Company Limited	Guoco Group Limited	Guangdong Tannery Limited
Hong Kong Building and Loan Agency Limited, The	G-Vision International (Holdings) Limited	Guangnan (Holdings) Limited
Hong Kong Catering Management Limited	GZI Real Estate Investment Trust	Guangshen Railway Company Limited
Hong Kong Exchanges and Clearing Limited	GZI Transport Limited	Guangzhou Investment Company Limited
Hong Kong Ferry (Holdings) Company Limited	Haier Electronics Group Co., Ltd.	Guangzhou Pharmaceutical Company Limited
Hong Kong Health Check and Laboratory Holdings Company Limited	Hainan Meilan International Airport Company Limited	Guangzhou R&F Properties Co., Ltd.
Hong Kong Parkview Group Ltd, The	Hang Fung Gold Technology Limited	Guangzhou Shipyard International Company Limited
Hong Kong Pharmaceutical Holdings Limited	Hang Lung Group Limited	Guo Xin Group Limited
Hongkong and Shanghai Hotels, Limited, The	Hang Lung Properties Limited	Guoco Group Limited
Hongkong Chinese Limited	Hang Seng Bank Limited	G-Vision International (Holdings) Limited
Hop Fung Group Holdings Limited	Hang Ten Group Holdings Limited	GZI Real Estate Investment Trust
Hop Hing Holdings Limited	Hanison Construction Holdings Limited	GZI Transport Limited
Hopefluent Group Holdings Limited	Hanny Holdings Limited	Haier Electronics Group Co., Ltd.
Hopewell Highway Infrastructure Limited	Hans Energy Company Limited	Hainan Meilan International Airport Company Limited
Hopewell Holdings Limited	Hantec Investment Holdings Limited	Haitian International Holdings Limited
Hopson Development Holdings Limited	Harbin Power Equipment Company Limited	Hang Fung Gold Technology Limited
Hsin Chong Construction Group Ltd	Harbour Centre Development Limited	Hang Lung Group Limited
Hua Han Bio-Pharmaceutical Holdings Limited	Harmony Asset Limited	Hang Lung Properties Limited
Hua Lien International (Holding) Company Limited	HC International, Inc.	Hang Seng Bank Limited
Hua Xia Healthcare Holdings Limited	Henderson Investment Limited	Hang Ten Group Holdings Limited
Huabao International Holdings Limited	Henderson Land Development Company Limited	Hanison Construction Holdings Limited
Huadian Power International Corporation Limited	Heng Tai Consumables Group Limited	HannStar Board International Holdings Limited
Huafeng Textile International Group Limited	Hengan International Group Company Limited	Hans Energy Company Limited
Hualing Holdings Limited	Henry Group Holdings Limited	Hantec Investment Holdings Limited
Huaneng Power International, Inc.	Herald Holdings Limited	Harbin Power Equipment Company Limited
Hung Hing Printing Group Limited	Heritage International Holdings Limited	Harbour Centre Development Limited
Hutchison Harbour Ring Limited	Hi Sun Technology (China) Limited	Harmony Asset Limited
Hutchison Telecommunications International Limited	High Fashion International Limited	HC International, Inc.
Hycomm Wireless Limited	HKC (Holdings) Limited	Hembly International Holdings Limited
Hysan Development Company Limited	HKC International Holdings Limited	Henderson Investment Limited
i-CABLE Communications Limited	HKR International Limited	Henderson Land Development Company Limited
IDT International Limited	Hon Kwok Land Investment Company Limited	Heng Tai Consumables Group Limited
IIN International Limited	Honesty Treasure International Holdings Limited	Hengan International Group Company Limited
Imagi International Holdings Limited	Hong Kong & China Gas Company Limited, The	Henry Group Holdings Limited
iMerchants Limited	Hong Kong Aircraft Engineering Company Limited	Herald Holdings Limited
Incutech Investments Limited	Hong Kong Building and Loan Agency Limited, The	Heritage International Holdings Limited
Industrial and Commercial Bank of China (Asia) Limited	Hong Kong Catering Management Limited	Hi Sun Technology (China) Limited
Info Communication Holdings Limited	Hong Kong Exchanges and Clearing Limited	High Fashion International Limited
Inno-Tech Holdings Limited	Hong Kong Ferry (Holdings) Company Limited	HKC (Holdings) Limited
Innovo Leisure Recreation Holdings Limited	Hong Kong Health Check and Laboratory Holdings Company Limited	HKC International Holdings Limited
Inspur International Limited	Hong Kong Parkview Group Ltd, The	HKR International Limited
Intcera High Tech Group Limited	Hong Kong Pharmaceutical Holdings Limited	Hon Kwok Land Investment Company Limited
Integrated Distribution Services Group Limited	Hongkong and Shanghai Hotels, Limited, The	Honesty Treasure International Holdings Limited
Intelli-Media Group Holdings Limited	Hongkong Chinese Limited	Hong Kong & China Gas Company Limited, The
Interchina Holdings Company Limited	Hongkong Electric Holdings Limited	Hong Kong Aircraft Engineering Company Limited
International Entertainment Corporation	Hop Fung Group Holdings Limited	Hong Kong Building and Loan Agency Limited, The
International Financial Network Holdings Ltd.	Hop Hing Holdings Limited	Hong Kong Catering Management Limited
IPE Group Limited	Hopefluent Group Holdings Limited	Hong Kong Economic Times Holdings Limited
IRICO Group Electronics Company Limited	Hopewell Highway Infrastructure Limited	Hong Kong Exchanges and Clearing Limited
ITC Corporation Limited	Hopewell Holdings Limited	Hong Kong Ferry (Holdings) Company Limited
ITE (Holdings) Limited	Hopson Development Holdings Limited	Hong Kong Health Check and Laboratory Holdings Company Limited
J.T.C. Technology Company Limited	Hsin Chong Construction Group Ltd.	Hong Kong Parkview Group Ltd, The
Jackin International Holdings Limited	Hua Han Bio-Pharmaceutical Holdings Limited	Hong Kong Pharmaceutical Holdings Limited
Jade Dynasty Group Limited	Hua Lien International (Holding) Company Limited	Hong Kong Holdings Limited
Jessica Publications Limited	Hua Xia Healthcare Holdings Limited	Hongkong and Shanghai Hotels, Limited, The
Jian ePayment Systems Limited	Hua Yi Copper Holdings Limited	Hongkong Chinese Limited
Jiangsu Expressway Company Limited	Huabao International Holdings Limited	Hongkong Electric Holdings Limited
Jiangsu Nandasoft Company Limited	Huadian Power International Corporation Limited	Hop Fung Group Holdings Limited
Jiangxi Copper Company Limited	Huafeng Textile International Group Limited	Hop Hing Holdings Limited
Jiaoda Kunji High-Tech Company Limited	Huaili Holdings (Group) Ltd.	Hopefluent Group Holdings Limited
Jilin Province Human Changlong Bio-pharmacy Company Limited	Hualing Holdings Limited	Hopewell Highway Infrastructure Limited
Jingwei Textile Machinery Company Limited	Huaneng Power International, Inc.	Hopewell Holdings Limited
Jinheng Automotive Safety Technology Holdings Limited	Human Nonferrous Metals Corporation Limited	Hopson Development Holdings Limited
Jinhui Holdings Company Limited	Hung Hing Printing Group Limited	Hsin Chong Construction Group Ltd.
Jiuzhou Development Company Limited	Hutchison Harbour Ring Limited	Hua Han Bio-Pharmaceutical Holdings Limited

Jiwa Bio-Pharm Holdings Limited	Hutchison Telecommunications International Limited	Hua Lien International (Holding) Company Limited
Johnson Electric Holdings Limited	Hvcomm Wireless Limited	Hua Xia Healthcare Holdings Limited
Joyce Boutique Holdings Limited	Hysan Development Company Limited	Hua Yi Copper Holdings Limited
Junefield Department Store Group Limited	I.T Limited	Huabao International Holdings Limited
K & P International Holdings Limited	i-CABLE Communications Limited	Huadian Power International Corporation Limited
K. Wah International Holdings Limited	IDT International Limited	Huafeng Textile International Group Limited
K.P.I. Company Limited	IIN International Limited	Huaili Holdings (Group) Ltd.
Kader Holdings Company Limited	Imagi International Holdings Limited	Hualing Holdings Limited
Kam Hing International Holdings Limited	iMerchants Limited	Hunan Nonferrous Metals Corporation Limited
KanHan Technologies Group Limited	Incutech Investments Limited	Hung Hing Printing Group Limited
Kanstar Environmental Technology Holdings Limited	Industrial and Commercial Bank of China (Asia) Limited	Hutchison Harbour Ring Limited
Kantone Holdings Limited	Info Communication Holdings Limited	Hutchison Telecommunications International Limited
Karce International Holdings Co. Ltd.	Inno-Tech Holdings Limited	Hvcomm Wireless Limited
Karl Thomson Holdings Limited	Innovo Leisure Recreation Holdings Limited	Hysan Development Company Limited
Karrie International Holdings Limited	Inspur International Limited	I.T Limited
Keck Seng Investment (Hong Kong) Ltd	Intcera High Tech Group Limited	i-CABLE Communications Limited
Kee Shing (Holdings) Limited	Integrated Distribution Services Group Limited	IDT International Limited
Kenfair International (Holdings) Limited	Intelli-Media Group Holdings Limited	IIN International Limited
Kerry Properties Limited	Interchina Holdings Company Limited	Imagi International Holdings Limited
Kin Yat Holdings Limited	International Entertainment Corporation	iMerchants Limited
King Fook Holdings Limited	International Financial Network Holdings Ltd.	Incutech Investments Limited
Kingboard Chemical Holdings Limited	IPE Group Limited	Industrial and Commercial Bank of China (Asia) Limited
Kingdee International Software Group Company Limited	IRICO Group Electronics Company Limited	Info Communication Holdings Limited
Kingmaker Footwear Holdings Limited	ITC Corporation Limited	Inno-Tech Holdings Limited
Kingway Brewery Holdings Limited	ITE (Holdings) Limited	Innovo Leisure Recreation Holdings Limited
Kith Holdings Limited	J.T.C. Technology Company Limited	Inspur International Limited
Kiu Hung International Holdings Limited	Jackin International Holdings Limited	Integrated Distribution Services Group Limited
Ko Yo Ecological Agrotech (Group) Limited	Jade Dynasty Group Limited	Intelli-Media Group Holdings Limited
Kong Sun Holdings Ltd	Jessica Publications Limited	Interchina Holdings Company Limited
Kowloon Development Company Limited	JF Household Furnishings Limited	International Entertainment Corporation
KTP Holdings Limited	Jian ePayment Systems Limited	International Financial Network Holdings Ltd.
Kwang Sung Electronics H.K. Co. Limited	Jiangsu Expressway Company Limited	IPE Group Limited
Kwong Hing International Holdings Limited	Jiangsu Nandasoft Company Limited	IRICO Group Electronics Company Limited
Kwoon Chung Bus Holdings Limited	Jiangxi Copper Company Limited	ITC Corporation Limited
Lai Fung Holdings Limited	Jiaoda Kunji High-Tech Company Limited	ITE (Holdings) Limited
Lai Sun Development Company Limited	Jilin Province Huinan Changlong Bio-pharmacy Company Limited	J.T.C. Technology Company Limited
Lai Sun Garment (International) Limited	Jingwei Textile Machinery Company Limited	Jackin International Holdings Limited
Launch Tech Company Limited	Jinheng Automotive Safety Technology Holdings Limited	Jade Dynasty Group Limited
Le Saunda Holdings Limited	Jinhui Holdings Company Limited	Jessica Publications Limited
Lee & Man Holding Limited	Jiuzhou Development Company Limited	JF Household Furnishings Limited
Lee & Man Paper Manufacturing Limited	Jiwa Bio-Pharm Holdings Limited	Jian ePayment Systems Limited
Lee Hing Development Limited	Johnson Electric Holdings Limited	Jiangsu Expressway Company Limited
Leeport (Holdings) Limited	Jolimark Holdings Limited	Jiangsu Nandasoft Company Limited
Lee's Pharmaceutical Holdings Limited	Joyce Boutique Holdings Limited	Jianoxi Copper Company Limited
Lei Shing Hong Limited	Ju Teng International Holdings Limited	Jiaoda Kunji High-Tech Company Limited
Lenovo Group Limited	Junefield Department Store Group Limited	Jilin Province Huinan Changlong Bio-pharmacy Company Limited
Lerado Group (Holding) Company Limited	K & P International Holdings Limited	Jilin Qifeng Chemical Fiber Co., Ltd.
LeRoi Holdings Limited	K. Wah International Holdings Limited	Jingwei Textile Machinery Company Limited
Li & Fung Limited	K.P.I. Company Limited	Jinheng Automotive Safety Technology Holdings Limited
Li Ning Company Limited	Kader Holdings Company Limited	Jinhui Holdings Company Limited
Lianhua Supermarket Holdings Co., Ltd.	Kam Hing International Holdings Limited	Jiuzhou Development Company Limited
Lifestyle International Holdings Limited	KanHan Technologies Group Limited	Jiwa Bio-Pharm Holdings Limited
LifeTec Group Limited	Kanstar Environmental Technology Holdings Limited	Johnson Electric Holdings Limited
Linefan Technology Holdings Limited	Kantone Holdings Limited	Jolimark Holdings Limited
Linmark Group Limited	Karce International Holdings Co. Ltd.	Joyce Boutique Holdings Limited
Lippo China Resources Limited	Karl Thomson Holdings Limited	Ju Teng International Holdings Limited
Lippo Limited	Karrie International Holdings Limited	Junefield Department Store Group Limited
Liu Chong Hing Investment Limited	Kasen International Holdings Limited	Jutal Offshore Oil Services Limited
Long Far Pharmaceutical Holdings Limited	Keck Seng Investment (Hong Kong) Ltd	K & P International Holdings Limited
Long Success International (Holdings) Limited	Kee Shing (Holdings) Limited	K. Wah International Holdings Limited
Longlife Group Holdings Limited	Kenfair International (Holdings) Limited	K.P.I. Company Limited
Lo's Enviro-Pro Holdings Limited	Kenford Group Holdings Ltd.	Kader Holdings Company Limited
Loulan Holdings Limited	Kerry Properties Limited	Kam Hing International Holdings Limited
Luen Thai Holdings Limited	Kin Yat Holdings Limited	KanHan Technologies Group Limited
Luk Fook Holdings (International) Limited	King Fook Holdings Limited	Kanstar Environmental Technology Holdings Limited
Luks Industrial (Group) Limited	Kingboard Chemical Holdings Limited	Kantone Holdings Limited
Lung Cheong International Holdings Limited	Kingdee International Software Group Company Limited	Karce International Holdings Co. Ltd.
Lung Kee (Bermuda) Holdings Limited	Kingmaker Footwear Holdings Limited	Karl Thomson Holdings Limited
Luoyang Glass Company Limited	Kingway Brewery Holdings Limited	Karrie International Holdings Limited
M Dream Inworld Limited	Kith Holdings Limited	Kasen International Holdings Limited
Maanshan Iron & Steel Co. Ltd.	Kiu Hung International Holdings Limited	Keck Seng Investment (Hong Kong) Ltd
Macau Prime Properties Holdings Limited	Ko Yo Ecological Agrotech (Group) Limited	Kee Shing (Holdings) Limited
MACRO-LINK International Holdings Ltd.	Kowloon Development Company Limited	Kenfair International (Holdings) Limited
MAE Holdings Limited	KTP Holdings Limited	Kenford Group Holdings Ltd.
Magician Industries (Holdings) Limited	Kwang Sung Electronics H.K. Co. Limited	Kerry Properties Limited
Magnificent Estates Ltd.	Kwong Hing International Holdings Limited	Kin Yat Holdings Limited
Mainland Headwear Holdings Limited	Kwoon Chung Bus Holdings Limited	King Fook Holdings Limited
Man Sang International Limited	Lai Fung Holdings Limited	Kingboard Chemical Holdings Limited
Man Yue International Holdings Limited	Lai Sun Development Company Limited	Kingboard Laminates Holdings Limited
Mandarin Entertainment (Holdings) Limited	Lai Sun Garment (International) Limited	Kingdee International Software Group Company Limited
Mascotte Holdings Limited	Lam Soon (Hong Kong) Limited	Kingdom Holdings Limited
Massive Resources International Corporation Limited	Launch Tech Company Limited	Kingmaker Footwear Holdings Limited
Matrix Holdings Limited	Le Saunda Holdings Limited	Kingway Brewery Holdings Limited
Matsunichi Communication Holdings Limited	Lee & Man Holding Limited	Kith Holdings Limited
MAXX Bioscience Holdings Limited	Lee & Man Paper Manufacturing Limited	Kiu Hung International Holdings Limited
Mayer Holdings Limited	Lee Hing Development Limited	Ko Yo Ecological Agrotech (Group) Limited
Medical China Limited	Leeport (Holdings) Limited	Kowloon Development Company Limited
MegaInfo Holdings Limited	Lee's Pharmaceutical Holdings Limited	KTP Holdings Limited
Mel Ah Entertainment Group Ltd.	Lei Shing Hong Limited	Kwang Sung Electronics H.K. Co. Limited
Melbourne Enterprises Limited	Lenovo Group Limited	Kwong Hing International Holdings Limited
Melco International Development Limited	Lerado Group (Holding) Company Limited	Kwoon Chung Bus Holdings Limited
Mexan Limited	LeRoi Holdings Limited	Lai Fung Holdings Limited
Midas International Holdings Limited	Li & Fung Limited	Lai Sun Development Company Limited
Midland Holdings Limited	Li Ning Company Limited	Lai Sun Garment (International) Limited
Milkyway Image Holdings Limited	Lianhua Supermarket Holdings Co., Ltd.	Lam Soon (Hong Kong) Limited
Min Xin Holdings Limited	Lifestyle International Holdings Limited	Launch Tech Company Limited
Ming Fung Jewellery Group Limited	LifeTec Group Limited	Le Saunda Holdings Limited
Ming Pao Enterprise Corporation Limited	Lijun International Pharmaceutical (Holding) Co., Ltd.	Lee & Man Holding Limited
Mingyuan Medicare Development Company Limited	Linefan Technology Holdings Limited	Lee & Man Paper Manufacturing Limited
Minmetals Resources Limited	Lingbao Gold Company Ltd.	Lee Hing Development Limited

Mirabell International Holdings Limited	Linmark Group Limited	Lee Kee Holdings Limited
Miramar Hotel and Investment Company, Limited	Lippo China Resources Limited	Leeport (Holdings) Limited
Mitsumaru East Kit (Holdings) Limited	Lippo Limited	Lee's Pharmaceutical Holdings Limited
Mobicon Group Limited	Liu Chong Hing Investment Limited	Lei Shing Hong Limited
Mobile Telecom Network (Holdings) Limited	Long Far Pharmaceutical Holdings Limited	Lenovo Group Limited
Moiselle International Holdings Limited	Long Success International (Holdings) Limited	Lerado Group (Holding) Company Limited
Morning Star Resources Limited	Longlife Group Holdings Limited	LeROI Holdings Limited
MP Logistics International Holdings Limited	Lo's Enviro-Pro Holdings Limited	Li & Fung Limited
MTR Corporation Limited	Luen Thai Holdings Limited	LI Ning Company Limited
Mudan Automobile Shares Company Limited	Luk Fook Holdings (International) Limited	Lianhua Supermarket Holdings Co., Ltd.
Multifield International Holdings Limited	Luks Industrial (Group) Limited	Lifestyle International Holdings Limited
Nam Fong International Holdings Limited	Lung Cheong International Holdings Limited	LifeTec Group Limited
Nam Hing Holdings Limited	Lung Kee (Bermuda) Holdings Limited	Liun International Pharmaceutical (Holding) Co., Ltd.
Nam Tai Electronic & Electrical Products Limited	Luoyang Glass Company Limited	Linefan Technology Holdings Limited
Nan Hai Corporation Limited	M Dream Inworld Limited	Linfair Holdings Ltd.
Nanjing Panda Electronics Company Limited	Maanshan Iron & Steel Co., Ltd.	Lingbao Gold Company Ltd.
Nanjing Sample Technology Company Limited	Macau Prime Properties Holdings Limited	Linmark Group Limited
Nanyang Holdings Limited	Macau Success Limited	Lippo China Resources Limited
National Electronics Holdings Limited	MACRO-LINK International Holdings Ltd.	Lippo Limited
Natural Beauty Bio-Technology Limited	MAE Holdings Limited	Liu Chong Hing Investment Limited
Neo-China Group (Holdings) Limited	Magician Industries (Holdings) Limited	Long Far Pharmaceutical Holdings Limited
Neolink Cyber Technology (Holding) Ltd.	Magnificent Estates Ltd.	Long Success International (Holdings) Limited
Netel Technology (Holdings) Limited	Mainland Headwear Holdings Limited	Longlife Group Holdings Limited
New Century Group Hong Kong Limited	Man Sang International Limited	Lo's Enviro-Pro Holdings Limited
New Chinese Medicine Holdings Limited	Man Yue International Holdings Limited	Luen Thai Holdings Limited
New City (China) Development Limited	Mandarin Entertainment (Holdings) Limited	Luk Fook Holdings (International) Limited
New Focus Auto Tech Holdings Limited	Mascotte Holdings Limited	Luks Industrial (Group) Limited
New Island Printing Holdings Ltd.	Massive Resources International Corporation Limited	Lung Cheong International Holdings Limited
New Smart Energy Group Limited	Matrix Holdings Limited	Lung Kee (Bermuda) Holdings Limited
New Times Group Holdings Limited	Matsunichi Communication Holdings Limited	Luoyang Glass Company Limited
New Universe International Group Limited	MAXX Bioscience Holdings Limited	M Dream Inworld Limited
New World China Land Limited	Mayer Holdings Limited	Maanshan Iron & Steel Co., Ltd.
New World CyberBase Limited	Medical China Limited	Macau Prime Properties Holdings Limited
New World Development Company Limited	MegaInfo Holdings Limited	Macau Success Limited
NewOcean Energy Holdings Limited	Mei Ah Entertainment Group Ltd.	MACRO-LINK International Holdings Ltd.
Next Media Limited	Melbourne Enterprises Limited	MAE Holdings Limited
Ngai Hing Hong Company Limited	Melco International Development Limited	Magician Industries (Holdings) Limited
Ngai Lik Industrial Holdings Limited	Mexan Limited	Magnificent Estates Ltd.
Ningbo Yidong Electronic Company Limited	Midas International Holdings Limited	Mainland Headwear Holdings Limited
Nority International Group Limited	Midland Holdings Limited	Man Sang International Limited
Norstar Founders Group Limited	Milkyway Image Holdings Limited	Man Yue International Holdings Limited
North Asia Strategic Holdings Limited	Min Xin Holdings Limited	Mandarin Entertainment (Holdings) Limited
Northeast Electric Development Co. Limited	Ming Fung Jewellery Group Limited	Mascotte Holdings Limited
Northeast Tiger Pharmaceutical Company Limited	Ming Pao Enterprise Corporation Limited	Massive Resources International Corporation Limited
Northern International Holdings Limited	Mingyuan Medicare Development Company Limited	Matrix Holdings Limited
NuBrands Group Holdings Limited	Minmetals Resources Limited	Matsunichi Communication Holdings Limited
NWS Holdings Limited	Mint Group Limited	MAXX Bioscience Holdings Limited
Ocean Grand Chemicals Holdings Limited	Mirabell International Holdings Limited	Mayer Holdings Limited
Ocean Grand Holdings Limited	Miramar Hotel and Investment Company, Limited	Meadville Holdings Limited
Omicorp Limited	Mitsumaru East Kit (Holdings) Limited	Medical China Limited
ONFEM Holdings Limited	Mobicon Group Limited	MegaInfo Holdings Limited
Orient Overseas (International) Limited	Mobile Telecom Network (Holdings) Limited	Mei Ah Entertainment Group Ltd.
Orient Power Holdings Limited	Moiselle International Holdings Limited	Melbourne Enterprises Limited
Orient Resources Group Company Limited	Morning Star Resources Limited	Melco International Development Limited
Oriental Explorer Holdings Limited	MP Logistics International Holdings Limited	Mexan Limited
Oriental Investment Corporation Limited	MTR Corporation Limited	Midas International Holdings Limited
Oriental Press Group Limited	Multifield International Holdings Limited	Midland Holdings Limited
Oriental Watch Holdings Limited	Nam Fong International Holdings Limited	Milkyway Image Holdings Limited
Pacific Andes International Holdings Limited	Nam Hing Holdings Limited	Min Xin Holdings Limited
Pacific Basin Shipping Limited	Nam Tai Electronic & Electrical Products Limited	Ming Fung Jewellery Group Limited
Pacific Century Insurance Holdings Limited	Nan Hai Corporation Limited	Ming Hing Holdings Limited
Pacific Century Premium Developments Limited	Nanjing Panda Electronics Company Limited	Ming Pao Enterprise Corporation Limited
Pacific Plywood Holdings Limited	Nanjing Sample Technology Company Limited	Mingyuan Medicare Development Company Limited
PacMOS Technologies Holdings Limited	Nanyang Holdings Limited	Minmetals Resources Limited
Pak Fah Yeow International Limited	National Electronics Holdings Limited	Mint Group Limited
Pak Tak International Limited	Natural Beauty Bio-Technology Limited	Mirabell International Holdings Limited
Paladin Limited	Neo-China Group (Holdings) Limited	Miramar Hotel and Investment Company, Limited
Paliburg Holdings Limited	Neolink Cyber Technology (Holding) Ltd.	Mitsumaru East Kit (Holdings) Limited
Panva Gas Holdings Limited	Netel Technology (Holdings) Limited	Mobicon Group Limited
Paul Y. Engineering Group Limited	New Capital International Investment Limited	Mobile Telecom Network (Holdings) Limited
PCCW Limited	New Century Group Hong Kong Limited	Modern Beauty Salon Holdings Limited
Peace Mark (Holdings) Limited	New Chinese Medicine Holdings Limited	Moiselle International Holdings Limited
Peaktop International Holdings Limited	New City (China) Development Limited	MP Logistics International Holdings Limited
Pearl Oriental Innovation Limited	New Focus Auto Tech Holdings Limited	MTR Corporation Limited
Pearl River Tyre (Holdings) Limited	New Heritage Holdings Ltd.	Multifield International Holdings Limited
Pegasus International Holdings Limited	New Island Printing Holdings Ltd.	NagaCorp Ltd.
Peking Apparel International Group Limited	New Smart Energy Group Limited	Nam Hing Holdings Limited
Perennial International Limited	New Times Group Holdings Limited	Nam Tai Electronic & Electrical Products Limited
Perfectech International Holdings Limited	New Universe International Group Limited	Nan Hai Corporation Limited
PetroChina Company Limited	New World China Land Limited	Nanjing Panda Electronics Company Limited
Phoenix Satellite Television Holdings Limited	New World CyberBase Limited	Nanjing Sample Technology Company Limited
Pico Far East Holdings Limited	New World Development Company Limited	Nanyang Holdings Limited
PINE Technology Holdings Limited	New World Mobile Holdings Limited	National Electronics Holdings Limited
Pioneer Global Group Limited	NewOcean Energy Holdings Limited	Natural Beauty Bio-Technology Limited
Playmates Holdings Limited	Next Media Limited	Neo-China Group (Holdings) Limited
Plus Holdings Limited	Ngai Hing Hong Company Limited	Neolink Cyber Technology (Holding) Ltd.
PME Group Limited	Ngai Lik Industrial Holdings Limited	Neo-Neon Holdings Limited
Pakfulam Development Company Limited	Ningbo Yidong Electronic Company Limited	Netel Technology (Holdings) Limited
Poly (Hong Kong) Investments Limited	Nority International Group Limited	New Capital International Investment Limited
Poly Investments Holdings Limited	Norstar Founders Group Limited	New Century Group Hong Kong Limited
Polytec Asset Holdings Limited	North Asia Strategic Holdings Limited	New Chinese Medicine Holdings Limited
Ports Design Limited	Northeast Electric Development Co. Limited	New Focus Auto Tech Holdings Limited
Powerleader Science & Technology Company Limited	Northeast Tiger Pharmaceutical Company Limited	New Heritage Holdings Ltd.
Premium Land Limited	Northern International Holdings Limited	New Island Printing Holdings Ltd.
Prime Investment Holdings Limited	NuBrands Group Holdings Limited	New Smart Energy Group Limited
Prime Success International Group Limited	NWS Holdings Limited	New Times Group Holdings Limited
Proactive Technology Holdings Limited	Ocean Grand Chemicals Holdings Limited	New Universe International Group Limited
Prosperity International Holdings (H.K.) Limited	Omicorp Limited	New World China Land Limited
Prosperity Investment Holdings Limited	ONFEM Holdings Limited	New World CyberBase Limited
Prosten Technology Holdings Limited	Orient Overseas (International) Limited	New World Development Company Limited

Prosticks International Holdings Limited	Orient Power Holdings Limited	New World Mobile Holdings Limited
Proview International Holdings Limited	Orient Resources Group Company Limited	NewOcean Energy Holdings Limited
Public Financial Holdings Limited	Oriental Explorer Holdings Limited	Ngai Hing Hong Company Limited
PYI Corporation Limited	Oriental Investment Corporation Limited	Ngai Lik Industrial Holdings Limited
Pvxis Group Limited	Oriental Press Group Limited	Nine Dragons Paper (Holdings) Limited
Q9 Technology Holdings Limited	Oriental Watch Holdings Limited	Ningbo Yidong Electronic Company Limited
Qianlong Technology International Holdings Limited	Pacific Andes International Holdings Limited	Nority International Group Limited
Qin Jia Yuan Media Services Company Limited	Pacific Basin Shipping Limited	Norstar Founders Group Limited
Qingling Motors Company Limited	Pacific Century Insurance Holdings Limited	North Asia Strategic Holdings Limited
QPL International Holdings Limited	Pacific Century Premium Developments Limited	Northeast Electric Development Co. Limited
Quality HealthCare Asia Limited	Pacific Plywood Holdings Limited	Northeast Tiger Pharmaceutical Company Limited
Quam Limited	PacMOS Technologies Holdings Limited	Northern International Holdings Limited
Quasar Communication Technology Holdings Limited	Pak Fah Yeow International Limited	NuBrands Group Holdings Limited
Radford Capital Investment Limited	Pak Tak International Limited	NWS Holdings Limited
Raymond Industrial Limited	Paladin Limited	O2Micro International Limited
RBI Holdings Limited	Paliburg Holdings Limited	Omnicorp Limited
Recruit Holdings Limited	Pan Sino International Holding Limited	One Media Group
Regal Hotels International Holdings Limited	Panva Gas Holdings Limited	ONFEM Holdings Limited
Regent Pacific Group Limited	Parkson Retail Group Ltd.	Orient Overseas (International) Limited
REXCAPITAL Financial Holdings Limited	Paul Y. Engineering Group Limited	Orient Resources Group Company Limited
Riche Multi-Media Holdings Limited	PCCW Limited	Oriental Explorer Holdings Limited
Rising Development Holdings Limited	Peace Mark (Holdings) Limited	Oriental Investment Corporation Limited
Rivera (Holdings) Limited	Peaktop International Holdings Limited	Oriental Press Group Limited
Road King Infrastructure Limited	Pearl Oriental Innovation Limited	Oriental Watch Holdings Limited
RoadShow Holdings Limited	Pearl River Tyre (Holdings) Limited	Pacific Andes International Holdings Limited
Rojam Entertainment Holdings Limited	Pegasus International Holdings Limited	Pacific Basin Shipping Limited
Rontex International Holdings Limited	Peking Apparel International Group Limited	Pacific Century Insurance Holdings Limited
S E A Holdings Limited	Perennial International Limited	Pacific Century Premium Developments Limited
S.A.S. Dragon Holdings Limited	Perfectech International Holdings Limited	Pacific Plywood Holdings Limited
Sa Sa International Holdings Limited	PetroChina Company Limited	PacMOS Technologies Holdings Limited
Safety Godown Company Limited	Phoenix Satellite Television Holdings Limited	Pak Fah Yeow International Limited
Sam Woo Holdings Limited	PICC Property and Casualty Company Limited	Pak Tak International Limited
Same Time Holdings Limited	Pico Far East Holdings Limited	Paladin Limited
Samson Paper Holdings Limited	PINE Technology Holdings Limited	Paliburg Holdings Limited
San Miguel Brewery Hong Kong Limited	Ping An Insurance (Group) Company of China, Ltd.	Panva Gas Holdings Limited
Sanmenxia Tianyuan Aluminum Company Limited	Pioneer Global Group Limited	Parkson Retail Group Ltd.
Sanyuan Group Limited	Playmates Holdings Limited	Paul Y. Engineering Group Limited
Sau San Tong Holdings (Cayman Islands) Limited	Plus Holdings Limited	PCCW Limited
SCMP Group Limited	PME Group Limited	Peace Mark (Holdings) Limited
Seapower Resources International Limited	Pokfulam Development Company Limited	Peaktop International Holdings Limited
See Corporation Limited	Poly (Hong Kong) Investments Limited	Pearl Oriental Innovation Limited
SEEC Media Group Limited	Poly Investments Holdings Limited	Pearl River Tyre (Holdings) Limited
Semiconductor Manufacturing International Corporation	Polytec Asset Holdings Limited	Pegasus International Holdings Limited
Sewco International Holdings Limited	Ports Design Limited	Peking Apparel International Group Limited
Shaanxi Northwest New Technology Industry Company Limited	Powerleader Science & Technology Company Limited	Perennial International Limited
Shandong Weigao Group Medical Polymer Company Limited	Premium Land Limited	Perfectech International Holdings Limited
Shandong Xinhua Pharmaceutical Company Limited	Prime Investment Holdings Limited	Phoenix Satellite Television Holdings Limited
Shang Hua Holdings Limited	Prime Success International Group Limited	PICC Property and Casualty Company Limited
Shanghai Allied Cement Limited	Proactive Technology Holdings Limited	Pico Far East Holdings Limited
Shanghai Forte Land Co., Ltd.	Prosperity International Holdings (H.K.) Limited	PINE Technology Holdings Limited
Shanghai Fudan Microelectronics Co. Ltd.	Prosperity Investment Holdings Limited	Ping An Insurance (Group) Company of China, Ltd.
Shanghai Fudan-Zhanqiang Bio-Pharmaceutical Co., Ltd.	Prosten Technology Holdings Limited	Pioneer Global Group Limited
Shanghai Industrial Holdings Limited	Prosticks International Holdings Limited	Playmates Holdings Limited
Shanghai International Shanghai Growth Investment Limited	Proview International Holdings Limited	Plus Holdings Limited
Shanghai Jiada Withub Information Industrial Company Limited	Public Financial Holdings Limited	PME Group Limited
Shanghai Land Holdings Limited	PYI Corporation Limited	Pokfulam Development Company Limited
Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.	Pvxis Group Limited	Poly (Hong Kong) Investments Limited
Shanghai Real Estates Limited	Q9 Technology Holdings Limited	Poly Investments Holdings Limited
Shanghai Zenda Property Limited	Qianlong Technology International Holdings Limited	Polytec Asset Holdings Limited
Shangri-La Asia Limited	Qin Jia Yuan Media Services Company Limited	Ports Design Limited
Shanxi Changcheng Microlight Equipment Co. Ltd.	Qingling Motors Company Limited	Premium Land Limited
Shaw Brothers (Hong Kong) Limited	QPL International Holdings Limited	Prime Investment Holdings Limited
Shell Electric Mfg. (Holdings) Co. Ltd.	Quality HealthCare Asia Limited	Prime Success International Group Limited
Shenyang Public Utility Holdings Company Limited	Quam Limited	Proactive Technology Holdings Limited
Shervin Wangou (H.K.) Ltd	Quasar Communication Technology Holdings Limited	Prosperity International Holdings (H.K.) Limited
Shenzhen Dongqiang Environmental Company Limited	Radford Capital Investment Limited	Prosperity Investment Holdings Limited
Shenzhen EVOC Intelligent Technology Company Limited	Raymond Industrial Limited	Prosperity Real Estate Investment Trust
Shenzhen Expressway Company Limited	RBI Holdings Limited	Prosten Technology Holdings Limited
Shenzhen High-Tech Holdings Limited	Recruit Holdings Limited	Prosticks International Holdings Limited
Shenzhen International Holdings Limited	Regal Hotels International Holdings Limited	Proview International Holdings Limited
Shenzhen Investment Limited	Regent Pacific Group Limited	Public Financial Holdings Limited
Shenzhen Mingwah Aohan High Technology Corporation Ltd.	REXCAPITAL Financial Holdings Limited	PYI Corporation Limited
Shimao International Holdings Limited	Riche Multi-Media Holdings Limited	Pvxis Group Limited
Shina Software (Holdings) Limited	Rising Development Holdings Limited	Q9 Technology Holdings Limited
Shougang Concord Century Holdings Limited	Rivera (Holdings) Limited	Qianlong Technology International Holdings Limited
Shougang Concord Grand (Group) Limited	Road King Infrastructure Limited	Qin Jia Yuan Media Services Company Limited
Shougang Concord International Enterprises Co. Ltd.	RoadShow Holdings Limited	Qingling Motors Company Limited
Shougang Concord Technology Holdings Ltd.	Rojam Entertainment Holdings Limited	QPL International Holdings Limited
Shui On Construction and Materials Limited	Rontex International Holdings Limited	Quality HealthCare Asia Limited
Shun Cheong Holdings Limited	S E A Holdings Limited	Quam Limited
Shun Ho Resources Holdings Limited	S.A.S. Dragon Holdings Limited	Quasar Communication Technology Holdings Limited
Shun Ho Technology Holdings Limited	Sa Sa International Holdings Limited	Radford Capital Investment Limited
Shun Tak Holdings Limited	Safety Godown Company Limited	Raymond Industrial Limited
Sichuan Expressway Company Limited	Sam Woo Holdings Limited	RBI Holdings Limited
Signal Media and Communications Holdings Limited	Same Time Holdings Limited	Recruit Holdings Limited
Silver Grant International Industries Limited	Samson Holdings Ltd.	Regal Hotels International Holdings Limited
Simsen International Corporation Limited	Samson Paper Holdings Limited	Regent Pacific Group Limited
Sincere Company Limited. The	San Miguel Brewery Hong Kong Limited	REXCAPITAL Financial Holdings Limited
Sing Lee Software (Group) Limited	Sandmartin International Holdings Limited	Riche Multi-Media Holdings Limited
Sing Tao News Corporation Limited	Sanmenxia Tianyuan Aluminum Company Limited	Rising Development Holdings Limited
Singamas Container Holdings Limited	Sanyuan Group Limited	Rivera (Holdings) Limited
Sino Biopharmaceutical Limited	Sau San Tong Holdings (Cayman Islands) Limited	Road King Infrastructure Limited
Sino Gas Group Limited	SCMP Group Limited	RoadShow Holdings Limited
Sino Golf Holdings Limited	Seapower Resources International Limited	Rojam Entertainment Holdings Limited
Sino Hailing Holdings Limited	See Corporation Limited	Rontex International Holdings Limited
Sino Hotels (Holdings) Limited	SEEC Media Group Limited	S E A Holdings Limited
Sino Katalytics Investment Corporation	Semiconductor Manufacturing International Corporation	S.A.S. Dragon Holdings Limited
Sino Land Company Limited	Sewco International Holdings Limited	Sa Sa International Holdings Limited
Sino Prosper Holdings Limited	Shaanxi Northwest New Technology Industry Company Limited	Safety Godown Company Limited
Sino Technology Investments Company Limited	Shandong Luoxin Pharmacy Stock Co., Ltd	Sam Woo Holdings Limited

Sino Union Petroleum & Chemical International Limited	Shandong Weigao Group Medical Polymer Company Limited	Same Time Holdings Limited
Sinocom Software Group Limited	Shandong Xinhua Pharmaceutical Company Limited	Samson Holding Ltd.
Sinofert Holdings Limited	Shang Hua Holdings Limited	Samson Paper Holdings Limited
Sino-I Technology Limited	Shanghai Allied Cement Limited	San Miguel Brewery Hong Kong Limited
Sinolink Worldwide Holdings Limited	Shanghai Donghua Petrochemical Co. Ltd.	Sandmartin International Holdings Limited
Sinopec Kantons Holdings Limited	Shanghai Electric Group Co. Ltd.	Sanmenxia Tianyuan Aluminum Company Limited
Sinopec Shanghai Petrochemical Company Limited	Shanghai Forte Land Co., Ltd.	Sanyuan Group Limited
Sinopec Yizheng Chemical Fibre Company Limited	Shanghai Fudan Microelectronics Co. Ltd.	Sau San Tong Holdings (Cayman Islands) Limited
Sino-Tech International Holdings Limited	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	SCMP Group Limited
Sinotrans Limited	Shanghai Industrial Holdings Limited	Scud Group Limited
Sinotronics Holdings Limited	Shanghai International Shanghai Growth Investment Limited	Seapower Resources International Limited
SiS International Holdings Limited	Shanghai Jiada Withub Information Industrial Company Limited	See Corporation Limited
SJTU Sunway Software Industry Limited	Shanghai Qinqpu Fire-Fighting Equipment Co., Ltd.	SEEC Media Group Limited
Skyflame Realty (Holdings) Limited	Shanghai Real Estates Limited	Semiconductor Manufacturing International Corporation
Skyworth Digital Holdings Limited	Shanghai Zenda Property Limited	Sewco International Holdings Limited
Smart Rich Energy Finance (Holdings) Ltd.	Shangri-La Asia Limited	Shaanxi Northwest New Technology Industry Company Limited
SmarTone Telecommunications Holdings Limited	Shanxi Changcheng Microlight Equipment Co. Ltd.	Shandong Luoxin Pharmacy Stock Co., Ltd.
SMI Corporation Limited	Shaw Brothers (Hong Kong) Limited	Shandong Molong Petroleum Machinery Company Limited
SMI Publishing Group Limited	Shell Electric Mfg. (Holdings) Co. Ltd.	Shandong Weigao Group Medical Polymer Company Limited
Softbank Investment International (Strategic) Limited	Shenyn Wanguo (H.K.) Ltd.	Shandong Xinhua Pharmaceutical Company Limited
Solartech International Holdings Limited	Shenzhen Dongjiang Environmental Company Limited	Shang Hua Holdings Limited
Solomon Systech (International) Limited	Shenzhen EVOC Intelligent Technology Company Limited	Shanghai Allied Cement Limited
Soluteck Holdings Limited	Shenzhen Expressway Company Limited	Shanghai Donghua Petrochemical Co. Ltd.
Sonavox International Holdings Limited	Shenzhen High-Tech Holdings Limited	Shanghai Electric Group Co. Ltd.
Soundwill Holdings Limited	Shenzhen International Holdings Limited	Shanghai Forte Land Co., Ltd.
South China Financial Holdings Limited	Shenzhen Investment Limited	Shanghai Fudan Microelectronics Co. Ltd.
South China Holdings Limited	Shenzhen Mingwah Aohan High Technology Corporation Ltd.	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.
South China Industries Limited	Shenzhen Neptunus Interlog Bio-technique Company Limited	Shanghai Industrial Holdings Limited
South East Group Limited	Shenzhen International Group Holdings Limited	Shanghai Jiada Withub Information Industrial Company Limited
South Sea Petroleum Holdings Limited	Shimao International Holdings Limited	Shanghai Jin Jiang International Hotels (Group) Company Ltd.
Southeast Asia Properties & Finance Limited	Shine Software (Holdings) Limited	Shanghai Prime Machinery Company Limited
Spread Prospects Holdings Limited	Shinhint Acoustic Link Holdings Limited	Shanghai Real Estates Limited
Star Cruises Limited	Shougang Concord Century Holdings Limited	Shangri-La Asia Limited
Starlight International Holdings Limited	Shougang Concord Grand (Group) Limited	Shanxi Changcheng Microlight Equipment Co. Ltd.
Starlite Holdings Limited	Shougang Concord International Enterprises Co. Ltd.	Shaw Brothers (Hong Kong) Limited
STELUX Holdings International Limited	Shougang Concord Technology Holdings Ltd.	Shell Electric Mfg. (Holdings) Co. Ltd.
Styland Holdings Limited	Shui On Construction and Materials Limited	Shenyn Wanguo (H.K.) Ltd.
Suga International Holdings Limited	Shun Cheong Holdings Limited	Shenzhen Dongjiang Environmental Company Limited
Sun East Technology (Holdings) Limited	Shun Ho Resources Holdings Limited	Shenzhen EVOC Intelligent Technology Company Limited
Sun Hing Vision Group Holdings Limited	Shun Ho Technology Holdings Limited	Shenzhen Expressway Company Limited
Sun Hung Kai & Company Limited	Shun Tak Holdings Limited	Shenzhen High-Tech Holdings Limited
Sun Hung Kai Properties Limited	Sichuan Expressway Company Limited	Shenzhen International Holdings Limited
Sun Innovation Holdings Limited	Signal Media and Communications Holdings Limited	Shenzhen Investment Limited
Sun Man Tai Holdings Company Limited	Silver Grant International Industries Limited	Shenzhen Mingwah Aohan High Technology Corporation Ltd.
SunCorp Technologies Limited	SIM Technology Group Limited	Shenzhen Neptunus Interlog Bio-technique Company Limited
SUNDAY Communications Limited	Simsen International Corporation Limited	Shenzhen International Group Holdings Limited
SUNVision Holdings Limited	Sincere Company Limited, The	Shimao International Holdings Limited
Sungreen International Holdings Ltd.	Sing Lee Software (Group) Limited	Shimao Property Holdings Limited
Sunlink International Holdings Limited	Sing Tao News Corporation Limited	Shine Software (Holdings) Limited
Sunny Global Holdings Limited	Singamas Container Holdings Limited	Shinhint Acoustic Link Holdings Limited
Sunway International Holdings Limited	Sino Biopharmaceutical Limited	Shougang Concord Century Holdings Limited
SW Kingsway Capital Holdings Limited	Sino Gas Group Limited	Shougang Concord Grand (Group) Limited
Swank International Manufacturing Company Limited	Sino Golf Holdings Limited	Shougang Concord International Enterprises Co. Ltd.
Swire Pacific Limited (A Share)	Sino Haijing Holdings Limited	Shougang Concord Technology Holdings Ltd.
Swire Pacific Limited (B Share)	Sino Hotels (Holdings) Limited	Shui On Construction and Materials Limited
Symphony Holdings Limited	Sino Katalytics Investment Corporation	Shui On Land Limited
SYS Solutions Holdings Limited	Sino Land Company Limited	Shun Cheong Holdings Limited
SYSCAN Technology Holdings Ltd	Sino Prosper Holdings Limited	Shun Ho Resources Holdings Limited
T.S. Telecom Technologies Limited	Sino Technology Investments Company Limited	Shun Ho Technology Holdings Limited
Tack Fat Group International Limited	Sino Union Petroleum & Chemical International Limited	Shun Tak Holdings Limited
Tack Hsin Holdings Limited	Sinocom Software Group Limited	Sichuan Expressway Company Limited
Tai Cheung Holdings Limited	Sinofert Holdings Limited	Signal Media and Communications Holdings Limited
Tai Ping Carpets International Limited	Sino-I Technology Limited	Silver Grant International Industries Limited
Tai Sang Land Development Limited	Sinolink Worldwide Holdings Limited	SIM Technology Group Limited
Tai Shing International (Holdings) Limited	Sinopec Kantons Holdings Limited	Simsen International Corporation Limited
Taifook Securities Group Limited	Sinopec Shanghai Petrochemical Company Limited	Sincere Company Limited, The
Tak Shun Technology Group Limited	Sinopec Yizheng Chemical Fibre Company Limited	Sincere Watch (Hong Kong) Limited
Tak Sing Alliance Holdings Limited	Sino-Tech International Holdings Limited	Sing Lee Software (Group) Limited
Takson Holdings Limited	Sinotrans Limited	Sing Tao News Corporation Limited
Tan Chong International Limited	Sinotronics Holdings Limited	Singamas Container Holdings Limited
Tanrich Financial Holdings Limited	SiS International Holdings Limited	Sino Biopharmaceutical Limited
TCC International Holdings Limited	SJTU Sunway Software Industry Limited	Sino Gas Group Limited
TCL Communication Technology Holdings Limited	Skyflame Realty (Holdings) Limited	Sino Golf Holdings Limited
TCL Multimedia Technology Holdings Limited	Skyworth Digital Holdings Limited	Sino Haijing Holdings Limited
Techpacific Capital Limited	Smart Rich Energy Finance (Holdings) Ltd.	Sino Hotels (Holdings) Limited
Teclonic Industries Co. Ltd.	SmarTone Telecommunications Holdings Limited	Sino Katalytics Investment Corporation
Team Foundation Group Ltd.	SMI Publishing Group Limited	Sino Land Company Limited
TeleEye Holdings Limited	Softbank Investment International (Strategic) Limited	Sino Prosper Holdings Limited
Television Broadcasts Limited	Solartech International Holdings Limited	Sino Technology Investments Company Limited
Tencent Holdings Limited	Solomon Systech (International) Limited	Sino Union Petroleum & Chemical International Limited
Tembray Industries International (Holdings) Limited	Soluteck Holdings Limited	Sinocom Software Group Limited
Tem Properties Company Limited	Sonavox International Holdings Limited	Sinofert Holdings Limited
Texhong Textile Group Limited	Soundwill Holdings Limited	Sino-I Technology Limited
Texwinca Holdings Limited	South China Financial Holdings Limited	Sinolink Worldwide Holdings Limited
The Quaypoint Corporation Limited	South China Holdings Limited	Sinopec Kantons Holdings Limited
The Wharf (Holdings) Limited	South China Industries Limited	Sinopec Shanghai Petrochemical Company Limited
Theme International Holdings Limited	South East Group Limited	Sinopec Yizheng Chemical Fibre Company Limited
ThinSoft (Holdings) Inc	South Sea Petroleum Holdings Limited	Sino-Tech International Holdings Limited
Thiz Technology Group Limited	Southeast Asia Properties & Finance Limited	Sinotrans Limited
Tian An China Investments Company Limited	Spread Prospects Holdings Limited	Sinotronics Holdings Limited
Tian Teck Land Limited	Star Cruises Limited	SiS International Holdings Limited
Tianjin Capital Environmental Protection Company Limited	Starlight International Holdings Limited	Skyflame Realty (Holdings) Limited
Tianjin Development Holdings Limited	Starlite Holdings Limited	Skyworth Digital Holdings Limited
Tianjin TEDA Biomedical Engineering Company Limited	STELUX Holdings International Limited	Smart Rich Energy Finance (Holdings) Ltd.
Tianjin Tianjin Public Utilities Company Limited	Stone Group Holdings Limited	Smart Union Group (Holdings) Limited
Tidetime Sun (Group) Limited	Styland Holdings Limited	SmarTone Telecommunications Holdings Limited
Timeless Software Limited	Suga International Holdings Limited	SMI Publishing Group Limited
Tingyi (Cayman Islands) Holding Corp.	Sun East Technology (Holdings) Limited	Softbank Investment International (Strategic) Limited
Titan Petrochemicals Group Limited	Sun Hing Vision Group Holdings Limited	Solartech International Holdings Limited
TOM Group Limited	Sun Hung Kai & Company Limited	Solomon Systech (International) Limited

TOM Online Inc.	Sun Hung Kai Properties Limited	Soluteck Holdings Limited
Tomorrow International Holdings Limited	Sun Innovation Holdings Limited	Sonavox International Holdings Limited
Tomson Group Limited	Sun Man Tai Holdings Company Limited	Soundwill Holdings Limited
Tong Ren Tang Technologies Co. Ltd.	SunCorp Technologies Limited	South China Financial Holdings Limited
Tongda Group Holdings Limited	SUNDAY Communications Limited	South China Holdings Limited
Tonic Industries Holdings Limited	SUNeVision Holdings Limited	South China Industries Limited
Top Form International Limited	Sungreen International Holdings Ltd.	South East Group Limited
Topsearch International (Holdings) Limited	Sunlink International Holdings Limited	South Sea Petroleum Holdings Limited
Town Health International Holdings Company Limited	Sunny Global Holdings Limited	Southeast Asia Properties & Finance Limited
TPV Technology Limited	Sun's Group Ltd., The	SPG Land (Holdings) Limited
Tradeeasy Holdings Limited	Sunway International Holdings Limited	Spread Prospects Holdings Limited
Transport International Holdings Limited	SW Kingsway Capital Holdings Limited	Star Cruises Limited
Trasy Gold Ex Limited	Swank International Manufacturing Company Limited	Starlight International Holdings Limited
TravelSky Technology Limited	Swire Pacific Limited (A Share)	Starlite Holdings Limited
Tristate Holdings Limited	Symphony Holdings Limited	STELUX Holdings International Limited
Truly International Holdings Limited	Synergis Holdings Limited	Stone Group Holdings Limited
Tse Sui Luen Jewellery (International) Limited	SYS Solutions Holdings Limited	Stvland Holdings Limited
Tsim Sha Tsui Properties Limited	SYSCAN Technology Holdings Ltd	Suga International Holdings Limited
Tsingtao Brewery Company Limited	T. S. Telecom Technologies Limited	Sun East Technology (Holdings) Limited
Tungda Innovative Lighting Holdings Limited	Tack Fat Group International Limited	Sun Hing Vision Group Holdings Limited
Tungtex (Holdings) Company Limited	Tack Hsin Holdings Limited	Sun Hung Kai & Company Limited
Tysan Holdings Ltd.	Tai Cheung Holdings Limited	Sun Hung Kai Properties Limited
UBA Investments Limited	Tai Ping Carpets International Limited	Sun Innovation Holdings Limited
UDL Holdings Limited	Tai Sang Land Development Limited	Sun Man Tai Holdings Company Limited
Ultra Group Holdings Limited	Tai Shing International (Holdings) Limited	SunCorp Technologies Limited
Uni-Bio Science Group Limited	Taifook Securities Group Limited	SUNeVision Holdings Limited
Union Bridge Holdings Limited	Tak Shun Technology Group Limited	Sungreen International Holdings Ltd.
United Metals Holdings Limited	Tak Sing Alliance Holdings Limited	Sunlink International Holdings Limited
United Pacific Industries Limited	Takson Holdings Limited	Sunny Global Holdings Limited
United Power Investment Limited	Tan Chang International Limited	Sun's Group Ltd., The
Unity Investments Holdings Limited	Tanrich Financial Holdings Limited	Sunway International Holdings Limited
Universal Technologies Holdings Limited	TCC International Holdings Limited	SW Kingsway Capital Holdings Limited
Universe International Holdings Limited	TCL Communication Technology Holdings Limited	Swank International Manufacturing Company Limited
Upbest Group Limited	TCL Multimedia Technology Holdings Limited	Swire Pacific Limited (A Share)
U-Right International Limited	Techpacific Capital Limited	Swire Pacific Limited (B Share)
USI Holdings Limited	Techtronic Industries Co. Ltd.	Symphony Holdings Limited
V.S. International Group Ltd.	Team Foundation Group Ltd.	Synergis Holdings Limited
Value Convergence Holdings Limited	TeleEye Holdings Limited	SYS Solutions Holdings Limited
Value Partners China Greenchip Fund Limited	Television Broadcasts Limited	SYSCAN Technology Holdings Ltd
Van Shung Chong Holdings Limited	Tencent Holdings Limited	T. S. Telecom Technologies Limited
Vantage International (Holdings) Limited	Termbay Industries International (Holdings) Limited	Tack Fat Group International Limited
Vartronix International Limited	Tern Properties Company Limited	Tack Hsin Holdings Limited
Vedan International (Holdings) Limited	Texhong Textile Group Limited	Tai Cheung Holdings Limited
Veeko International Holdings Limited	Texwinca Holdings Limited	Tai Ping Carpets International Limited
Venture International Investment Holdings Limited	The Quaypoint Corporation Limited	Tai Sang Land Development Limited
Venturepharm Laboratories Limited	The Wharf (Holdings) Limited	Tai Shing International (Holdings) Limited
Vertex Group Limited	Theme International Holdings Limited	Taifook Securities Group Limited
Victory City International Holdings Limited	ThinSoft (Holdings) Inc	Tai-I International Holdings Limited
Victory Group Limited	Thiz Technology Group Limited	Tak Shun Technology Group Limited
Vision Tech International Holdings Limited	Tian An China Investments Company Limited	Tak Sing Alliance Holdings Limited
Vital BioTech Holdings Limited	Tian Teck Land Limited	Takson Holdings Limited
Vilasoy International Holdings Limited	Tianjin Capital Environmental Protection Company Limited	Tan Chang International Limited
Vitop Bioenergy Holdings Limited	Tianjin Development Holdings Limited	Tanrich Financial Holdings Limited
Vodatel Networks Holdings Limited	Tianjin TEDA Biomedical Engineering Company Limited	TCC Interconnect Holdings Limited
Vongroup Limited	Tianjin Tianlian Public Utilities Company Limited	TCC International Holdings Limited
VST Holdings Limited	Tidetime Sun (Group) Limited	TCL Communication Technology Holdings Limited
VTech Holdings Limited	Tiger Tech Holdings Limited	Techpacific Capital Limited
VXL Capital Limited	Timeless Software Limited	Techtronic Industries Co. Ltd.
Water Systems Limited	Tingvi (Cayman Islands) Holding Corp.	Team Foundation Group Ltd.
Wah Ha Realty Company Limited	Titan Petrochemicals Group Limited	TeleEye Holdings Limited
Wah Nam International Holdings Limited	TOM Group Limited	Television Broadcasts Limited
Wah Yuen Holdings Limited	TOM Online Inc.	Termbay Industries International (Holdings) Limited
Wai Kee Holdings Limited	Tomorrow International Holdings Limited	Tern Properties Company Limited
Wai Yuen Tong Medicine Holdings Limited	Tomson Group Limited	Texhong Textile Group Limited
Wang On Group Ltd.	Tong Ren Tang Technologies Co. Ltd.	Texwinca Holdings Limited
Wang Sing International Holdings Group Limited	Tongda Group Holdings Limited	The Link Real Estate Investment Trust
Warderly International Holdings Limited	Tonic Industries Holdings Limited	The Ming An (Holdings) Company Limited
Water Oasis Group Limited	Top Form International Limited	The Quaypoint Corporation Limited
Wealthmark International (Holdings) Limited	Topsearch International (Holdings) Limited	The Wharf (Holdings) Limited
Weichai Power Co., Ltd.	Town Health International Holdings Company Limited	Theme International Holdings Limited
Weiqiao Textile Company Limited	TPV Technology Limited	ThinSoft (Holdings) Inc
Wheelock & Company Limited	Tradeeasy Holdings Limited	Thiz Technology Group Limited
Wheelock Properties Limited	Tradelink Electronic Commerce Limited	Tian An China Investments Company Limited
Willie International Holdings Limited	Transport International Holdings Limited	Tian Teck Land Limited
Winfair Investment Company Limited	Trasy Gold Ex Limited	Tiande Chemical Holdings Limited
Winloong International Limited	TravelSky Technology Limited	Tianjin Capital Environmental Protection Company Limited
Wing Hang Bank Limited	Tristate Holdings Limited	Tianjin Development Holdings Limited
Wing Hing International (Holdings) Limited	Truly International Holdings Limited	Tianjin Port Development Holdings Limited
Wing Lee Holdings Limited	Tse Sui Luen Jewellery (International) Limited	Tianjin TEDA Biomedical Engineering Company Limited
Wing Lung Bank Limited	Tsim Sha Tsui Properties Limited	Tianjin Tianlian Public Utilities Company Limited
Wing On Company International Limited	Tsingtao Brewery Company Limited	Tidetime Sun (Group) Limited
Wing On Travel (Holdings) Limited	Tungda Innovative Lighting Holdings Limited	Tiger Tech Holdings Limited
Wing Shan International Limited	Tungtex (Holdings) Company Limited	Timeless Software Limited
Wing Shing International Holdings Limited	Tysan Holdings Ltd.	Tingvi (Cayman Islands) Holding Corp.
Winsor Properties Holdings Limited	UBA Investments Limited	Titan Petrochemicals Group Limited
WLS Holdings Limited	UDL Holdings Limited	TOM Group Limited
Wo Kee Hong (Holdings) Limited	Ultra Group Holdings Limited	TOM Online Inc.
Wonderful World Holdings Limited	Uni-Bio Science Group Limited	Tomorrow International Holdings Limited
Wong's International (Holdings) Limited	Union Bridge Holdings Limited	Tomson Group Limited
Wong's Kong King International Holdings Limited	United Metals Holdings Limited	Tong Ren Tang Technologies Co. Ltd.
Wonson International Holdings Limited	United Pacific Industries Limited	Tongda Group Holdings Limited
World Houseware (Holdings) Limited	United Power Investment Limited	Tonic Industries Holdings Limited
World Trade Bun Kee Limited	Unity Investments Holdings Limited	Top Form International Limited
Wumart Stores, Inc.	Universal Technologies Holdings Limited	Topsearch International (Holdings) Limited
X'an Haitian Antenna Technologies Co., Ltd.	Universe International Holdings Limited	Town Health International Holdings Company Limited
Xin Corporation Limited	Upbest Group Limited	TPV Technology Limited
XinAo Gas Holdings Limited	U-Right International Limited	Tradeeasy Holdings Limited
Xinyi Glass Holdings Limited	USI Holdings Limited	Tradelink Electronic Commerce Limited
Xteam Software International Limited	V.S. International Group Ltd.	Transport International Holdings Limited
Y. T. Realty Group Limited	Value Convergence Holdings Limited	Trasy Gold Ex Limited

Yangtzekiang Garment Limited	Van Shung Chong Holdings Limited	TravelSky Technology Limited
Yanion International Holdings Limited	Vantage International (Holdings) Limited	Tristate Holdings Limited
Yantai North Andre Juice Co., Ltd.	Varitronix International Limited	Truly International Holdings Limited
Yanzhou Coal Mining Company Limited	Vedan International (Holdings) Limited	Tse Sui Luen Jewellery (International) Limited
Yardway Group Limited	Veeko International Holdings Limited	Tsim Sha Tsui Properties Limited
Yau Lee Holdings Limited	Venture International Investment Holdings Limited	Tsingtao Brewery Company Limited
Yeebo (International Holdings) Limited	Venturepharm Laboratories Limited	Tungda Innovative Lighting Holdings Limited
YGM Trading Limited	Vertex Group Limited	Tungtex (Holdings) Company Limited
Yip's Chemical Holdings Limited	Victory City International Holdings Limited	Tvsan Holdings Ltd.
Yu Ming Investments Limited	Victory Group Limited	UBA Investments Limited
Yue Da Holdings Limited	Vision Tech International Holdings Limited	UDL Holdings Limited
Yue Yuen Industrial (Holdings) Limited	Vital BioTech Holdings Limited	Ultra Group Holdings Limited
Yugang International Limited	Vitasoy International Holdings Limited	Uni-Bio Science Group Limited
Yunnan Enterprises Holdings Limited	Vitop Bioenergy Holdings Limited	Union Bridge Holdings Limited
Yuxing InfoTech Holdings Limited	Vodatel Networks Holdings Limited	United Metals Holdings Limited
Zheda Lande Scitech Limited	Vongroup Limited	United Pacific Industries Limited
Zhejiang Expressway Co., Ltd.	VST Holdings Limited	United Power Investment Limited
Zhejiang Glass Company Limited	VTech Holdings Limited	Unity Investments Holdings Limited
Zhejiang Prospect Company Limited	VXL Capital Limited	Universal Technologies Holdings Limited
Zhejiang Yonglong Enterprises Company Limited	Wafer Systems Limited	Universe International Holdings Limited
Zhengzhou Gas Company Limited	Wah Ha Realty Company Limited	Upbest Group Limited
Zhong Hua International Holdings Ltd.	Wah Nam International Holdings Limited	U-Right International Limited
Zhongda International Holdings Limited	Wah Yuen Holdings Limited	USI Holdings Limited
Zhongyu Gas Holdings Limited	Wai Kee Holdings Limited	V.S. International Group Ltd.
Zijin Mining Group Co., Ltd	Wai Yuen Tong Medicine Holdings Limited	Value Convergence Holdings Limited
ZTE Corporation	Wang On Group Ltd.	Van Shung Chong Holdings Limited
ZZNode Technologies Company Limited	Wang Sing International Holdings Group Limited	Vantage International (Holdings) Limited
	Warderly International Holdings Limited	Varitronix International Limited
	Wasion Meters Group Limited	Vedan International (Holdings) Limited
	Water Oasis Group Limited	Veeko International Holdings Limited
	Wealthmark International (Holdings) Limited	Venture International Investment Holdings Limited
	Weichai Power Co., Ltd.	Venturepharm Laboratories Limited
	Weiqiao Textile Company Limited	Vertex Group Limited
	Wheelock & Company Limited	Victory City International Holdings Limited
	Wheelock Properties Limited	Vision Tech International Holdings Limited
	Willie International Holdings Limited	Vital BioTech Holdings Limited
	Winfair Investment Company Limited	Vitasoy International Holdings Limited
	Winfoong International Limited	Vitop Bioenergy Holdings Limited
	Wing Hang Bank Limited	Vodatel Networks Holdings Limited
	Wing Hing International (Holdings) Limited	Vongroup Limited
	Wing Hong (Holdings) Limited	VST Holdings Limited
	Wing Lee Holdings Limited	VTech Holdings Limited
	Wing Lung Bank Limited	Wafer Systems Limited
	Wing On Company International Limited	Wah Ha Realty Company Limited
	Wing On Travel (Holdings) Limited	Wah Nam International Holdings Limited
	Wing Shan International Limited	Wah Yuen Holdings Limited
	Wing Shing International Holdings Limited	Wai Kee Holdings Limited
	Winsor Properties Holdings Limited	Wai Yuen Tong Medicine Holdings Limited
	WLS Holdings Limited	Wang On Group Ltd.
	Wo Kee Hong (Holdings) Limited	Wang Sing International Holdings Group Limited
	Wonderful World Holdings Limited	Warderly International Holdings Limited
	Wong's International (Holding) Limited	Wasion Meters Group Limited
	Wong's Kong King International Holdings Limited	Water Oasis Group Limited
	Wonson International Holdings Limited	Wealthmark International (Holdings) Limited
	World Houseware (Holdings) Limited	Weichai Power Co., Ltd.
	World Trade Bun Kee Limited	Weiqiao Textile Company Limited
	Wumart Stores, Inc.	Wheelock & Company Limited
	Xiamen International Port Co., Ltd	Wheelock Properties Limited
	Xian Haitian Antenna Technologies Co., Ltd.	Willie International Holdings Limited
	Xin Corporation Limited	Win Hanverky Holdings Limited
	XinAo Gas Holdings Limited	Winbox International (Holdings) Limited
	Xinjiang Tianye Water Saving Irrigation System Company Ltd.	Winfair Investment Company Limited
	Xinyi Glass Holdings Limited	Winfoong International Limited
	Xinyu Hengdell Holdings Limited	Wing Hang Bank Limited
	Xiwang Sugar Holdings Company Limited	Wing Hing International (Holdings) Limited
	Xteam Software International Limited	Wing Hong (Holdings) Limited
	Y. T. Realty Group Limited	Wing Lee Holdings Limited
	Yangtzekiang Garment Limited	Wing Lung Bank Limited
	Yanion International Holdings Limited	Wing On Company International Limited
	Yantai North Andre Juice Co., Ltd.	Wing On Travel (Holdings) Limited
	Yanzhou Coal Mining Company Limited	Wing Shan International Limited
	Yardway Group Limited	Wing Shing International Holdings Limited
	Yau Lee Holdings Limited	Winsor Properties Holdings Limited
	Yeebo (International Holdings) Limited	WLS Holdings Limited
	YGM Trading Limited	Wo Kee Hong (Holdings) Limited
	Yip's Chemical Holdings Limited	Wonderful World Holdings Limited
	Yorkey Optical International (Cayman) Ltd.	Wong's International (Holding) Limited
	Yu Ming Investments Limited	Wong's Kong King International Holdings Limited
	Yue Da Holdings Limited	Wonson International Holdings Limited
	Yue Yuen Industrial (Holdings) Limited	World Houseware (Holdings) Limited
	Yugang International Limited	World Trade Bun Kee Limited
	Yunnan Enterprises Holdings Limited	Wumart Stores, Inc.
	Yusei Holdings Limited	Wuyi International Pharmaceutical Company Limited
	Yuxing InfoTech Holdings Limited	Xiamen International Port Co., Ltd
	Zheda Lande Scitech Limited	Xian Haitian Antenna Technologies Co., Ltd.
	Zhejiang Expressway Co., Ltd.	Xin Corporation Limited
	Zhejiang Glass Company Limited	XinAo Gas Holdings Limited
	Zhejiang Prospect Company Limited	Xingda International Holdings Limited
	Zhejiang Yonglong Enterprises Company Limited	Xinjiang Tianye Water Saving Irrigation System Company Ltd.
	Zhengzhou Gas Company Limited	Xinyi Glass Holdings Limited
	Zhong Hua International Holdings Ltd.	Xinyu Hengdell Holdings Limited
	Zhongda International Holdings Limited	Xiwang Sugar Holdings Company Limited
	Zhongtian International Limited	Xteam Software International Limited
	Zhongyu Gas Holdings Limited	Y. T. Realty Group Limited
	Zijin Mining Group Co., Ltd	Yangtzekiang Garment Limited
	ZTE Corporation	Yanion International Holdings Limited
	ZZNode Technologies Company Limited	Yantai North Andre Juice Co., Ltd.

Yanzhou Coal Mining Company Limited
Yardway Group Limited
Yau Lee Holdings Limited
Yeebo (International Holdings) Limited
YGM Trading Limited
Yip's Chemical Holdings Limited
Yorkey Optical International (Cayman) Ltd.
Yu Ming Investments Limited
Yue Da Holdings Limited
Yue Yuen Industrial (Holdings) Limited
Yugang International Limited
Yunnan Enterprises Holdings Limited
Yusei Holdings Limited
Yuxing InfoTech Holdings Limited
Zhaojin Mining Industry Co. Limited
Zheda Lande Scitech Limited
Zhejiang Expressway Co., Ltd.
Zhejiang Glass Company Limited
Zhejiang Prospect Company Limited
Zhejiang Shibao Company Limited
Zhejiang Yonglong Enterprises Company Limited
Zhengzhou Gas Company Limited
Zhong Hua International Holdings Ltd.
Zhongda International Holdings Limited
Zhongtian International Limited
Zhongyu Gas Holdings Limited
Zhuzhou CSR Times Electric Company Limited
Zijin Mining Group Co., Ltd
ZTE Corporation
ZZNode Technologies Company Limited

Appendix C

The Second-tier Audit Firms in Hong Kong

1. Baker Tilly Hong Kong Limited¹
2. BDO McCabe Lo Limited
3. CCIF CPA Limited
4. CWCC Company Limited
5. Grant Thornton
6. HLB Hodgson Impey Cheng
7. Horwath HK CPA Limited
8. KLL Associates CPA Limited
9. Moores Rowland Mazars
10. RSM Nelson Wheeler
11. AOBA CPA Limited
12. BKR Lew & Barr Limited
13. FTW & Partners CPA Limited
14. Hong Kong Great Wall Certified Public Accountants Limited
15. Hopkins CPA Limited
16. Moore Stephens
17. Morison Heng
18. Nexia Charles Mar Fan & Company
19. Philip Lee & Company
20. PKF

¹ Number 1 – 10 are the top 10 national firms that are categorized as HKTOP10 in this study.

21. Shinewing (HK) CPA Limited
22. Ting Ho Kwan & Chan
23. UHY ZTHZ HK CPA Limited
24. Wong Brothers & Company
25. Wong Lam Leung & Kwok C.P.A. Limited

Appendix D

Casewise Diagnostics

2004

Case Number	Std. Residual	LAF	Predicted Value	Residual
11	3.081	11.227	9.346535	1.880454
25	-12.475	0.7041	8.317904	-7.61382
181	4.831	8.0986	5.149952	2.948691
230	3.815	8.5172	6.188873	2.32832
596	3.09	12.1007	10.21458	1.886129
662	3.76	10.8971	8.602511	2.294617
701	3.53	9.6602	7.505757	2.154448
722	4.621	13.1404	10.32005	2.820374
725	3.921	11.5233	9.130233	2.393088
728	-4.788	4.6444	7.566923	-2.92253
934	3.002	6.7452	4.913259	1.831977
972	3.249	6.1696	4.186941	1.98267

2005

Case Number	Std. Residual	LAF	Predicted Value	Residual
482	4.613	9.6062	7.093911	2.512299
644	4.26	12.6115	10.29117	2.320365
715	3.7	10.9601	8.945181	2.014957
778	4.721	13.3695	10.79816	2.571303
781	3.447	11.4731	9.596057	1.877088
784	-5.714	4.6913	7.803182	-3.11183
849	-4.234	5.3033	7.60919	-2.30588

2006

Case Number	Std. Residual	LAF	Predicted Value	Residual
5	3.342	11.845892	9.889267	1.956625
364	3.398	10.043249	8.053840	1.989410
365	-4.817	3.803156	6.623276	-2.820120
671	3.463	12.520883	10.493047	2.027837
702	3.417	9.740969	7.740355	2.000614
745	3.019	11.015123	9.247377	1.767746
748	4.390	11.697935	9.127579	2.570356
813	3.344	13.160706	11.202591	1.958115
879	9.661	12.005143	6.348437	5.656706
915	-3.139	7.370860	9.208930	-1.838070

a. Dependent Variable: LAF

Appendix E

Companies Defined as Outliers from Casewise Diagnostics⁴2004

China Petroleum & Chemical Corporation

China Unicom Limited

EganaGoldpfeil (Holdings) Limited

GreaterChina Technology Group Ltd.

Hongkong Electric Holdings Limited

HSBC Holdings plc

Hutchison Whampoa Limited

Jilin Chemical Industrial Company Limited

Macau Success Limited

Standard Chartered Plc

Tiger Tech Holdings Limited

Tracker Fund of Hong Kong

2005

China Unicom Limited

HSBC Holdings plc

Hutchison Whampoa Limited

O2Micro International Limited

Prosperity Real Estate Investment Trust

⁴ These companies are excluded from the data because they are either financial institutions or those largest companies in HK that are regarded as outliers and could possibly affect the reliability of data.

Standard Chartered Plc

Tracker Fund of Hong Kong

2006

Bank of China Limited

BOC Hong Kong (Holdings) Limited

China Construction Bank Corporation

China Life Insurance Company Limited

China Mobile Limited

China Netcom Group Corporation (Hong Kong) Limited

China Petroleum & Chemical Corporation

China Shenhua Energy Company Limited

China Telecom Corporation Limited

China Unicom Limited

Hanny Holdings Limited

HSBC Holdings plc

Huaneng Power International, Inc.

Hutchison Whampoa Limited

Industrial and Commercial Bank of China Limited

Next Media Limited

PetroChina Company Limited

Powerleader Science & Technology Company Limited

Shanghai International Shanghai Growth Investment Limited

Standard Chartered Plc

Appendix F

Table of Listed Companies with Auditor Changes since 2004

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
1176	Nam Fong International Holdings Limited	31-Dec	RSM Nelson Wheeler	Charles Chan, Ip & Fung CPA Ltd.	7-Jan-04
663	Swank International Manufacturing Company Limited	31-Dec	Ernst & Young	Charles Chan, Ip & Fung CPA Ltd.	26-Jan-04
8225	Venturepharm Laboratories Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	2-Feb-04
177	Jiangsu Expressway Company Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	3-Feb-04
157	Natural Beauty Bio-Technology Limited	31-Dec	PricewaterhouseCoopers	KPMG	11-Feb-04
612	China Investment Fund Company Limited	31-Dec	Deloitte Touche Tohmatsu	Charles Chan, Ip & Fung CPA Ltd.	18-Feb-04
2328	PICC Property and Casualty Company Limited	31-Dec	KPMG	Ernst & Young	27-Feb-04
905	Haywood Investments Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	27-Feb-04
1229	Artfield Group Limited	31-Mar	Ernst & Young	KLL Associates CPA Ltd.	3-Mar-04
353	Jackley Holdings Limited	31-Dec	Ernst & Young	RSM Nelson Wheeler	15-Mar-04
1129	Shy Hawk Computer Group Holdings Limited	31-Dec	KPMG	KLL Associates CPA Ltd.	16-Mar-04
965	Yu Fung International Group Holding Limited	31-May	Ernst & Young	Charles Chan, Ip & Fung CPA Ltd.	23-Mar-04
90	Gold Wo International Holdings Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	24-Mar-04
673	China HealthCare Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	RSM Nelson Wheeler	7-Apr-04
312	Ezcom Holdings Limited	30-Apr	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	16-Apr-04
526	Magician Industries (Holdings) Limited	31-Mar	PricewaterhouseCoopers	Moore Rowland Mazars	16-Apr-04
223	Kenfair International (Holdings) Limited	31-Mar	Ernst & Young	Charles Chan, Ip & Fung CPA Ltd.	27-Apr-04
8136	FX Creations International Holdings Limited	31-Mar	RSM Nelson Wheeler	Baker Tilly Hong Kong Limited	27-Apr-04
264	Chanco International Group Limited	31-Mar	PricewaterhouseCoopers	KLL Associates CPA Ltd.	28-Apr-04
855	China Silver Dragon Group Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	28-Apr-04
8220	Vaso Digital International Holdings Ltd.	31-Mar	RSM Nelson Wheeler	HLB Hodgson Impey Cheng	28-Apr-04
8220	Vaso Digital International Holdings Ltd.	31-Mar	RSM Nelson Wheeler	HLB Hodgson Impey Cheng	29-Apr-04
608	High Fashion International Limited	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	4-May-04
990	Theme International Holdings Limited	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	4-May-04
8161	WorldMetal Hold. Limited	31-Mar	PricewaterhouseCoopers	HLB Hodgson Impey Cheng	14-May-04
1013	Plus Holdings Limited	31-Mar	KLL Associates CPA Ltd.	Morison Heng	17-May-04
8085	New Chinese Medicine Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	TK Choi And Company and P Tse & Company	20-May-04

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
943	eForce Holdings Limited	31-Dec	KPMG	RSM Nelson Wheeler	28-May-04
8150	Fast Systems Technology (Holdings) Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	28-May-04
8029	Galileo Capital Holdings Limited	31-Mar	Ernst & Young	Deloitte Touche Tohmatsu	2-Jun-04
217	China Chengtong Development Group Limited	31-Mar	Moore Stephens	Deloitte Touche Tohmatsu	7-Jun-04
1160	Grand Investment International Limited	N/A	KPMG	BKR Lew & Barr Limited	17-Jun-04
565	Art Textile Technology International Co. Ltd.	30-Jun	Ernst & Young	Deloitte Touche Tohmatsu	24-Jun-04
120	Cosmopolitan International Holdings Limited	31-Mar	Charles Chan, Ip & Fung CPA Ltd.	KLL Associates CPA Ltd.	24-Jun-04
223	Kenfair International (Holdings) Limited	31-Mar	Charles Chan, Ip & Fung CPA Ltd.	HLB Hodgson Impey Cheng	9-Jul-04
1178	Vitop Bioenergy Holdings Limited	30-Jun	Ernst & Young	Grant Thornton	12-Jul-04
8167	B&S Entertainment Holdings Limited	30-Jun	Ernst & Young	Charles Chan, Ip & Fung CPA Ltd.	19-Jul-04
674	United Power Investment Limited	31-Mar	PricewaterhouseCoopers	BDO McCabe Lo & Co	20-Jul-04
720	Wo Kee Hong (Holdings) Limited	31-Dec	Deloitte Touche Tohmatsu	RSM Nelson Wheeler	21-Jul-04
727	VXL Capital Limited	31-Dec	Grant Thornton	PricewaterhouseCoopers	22-Jul-04
513	Continental Holdings Limited	30-Jun	Ernst & Young	Grant Thornton	23-Jul-04
8153	M21 Technology Limited	31-Mar	PricewaterhouseCoopers	Charles Chan, Ip & Fung CPA Ltd.	23-Jul-04
249	Harbin Brewery Group Limited	31-Dec	Ernst & Young	PricewaterhouseCoopers	26-Jul-04
8126	G.A. Holdings Limited	31-Dec	Moore Rowland Mazars	Grant Thornton	27-Jul-04
1116	Mayer Holdings Limited	N/A	Deloitte Touche Tohmatsu	Charles Chan, Ip & Fung CPA Ltd.	2-Aug-04
938	Man Sang International Limited	31-Mar	Deloitte Touche Tohmatsu	Moore Rowland Mazars	4-Aug-04
922	Vision Tech International Holdings Limited	31-Mar	Moore Rowland Mazars	Charles Chan, Ip & Fung CPA Ltd.	5-Aug-04
922	Vision Tech International Holdings Limited	31-Mar	Charles Chan, Ip & Fung CPA Ltd.	Wong Lam Leung & Kwok CPA Limited	5-Aug-04
432	Pacific Century Premium Developments Limited	31-Mar	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	6-Aug-04
8126	G.A. Holdings Limited	31-Dec	Moore Rowland Mazars	Grant Thornton	11-Aug-04
501	RNA Holdings Limited	30-Apr	Ernst & Young	Ting Ho Kwan & Chan	16-Aug-04
915	Linmark Group Limited	30-Apr	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	16-Aug-04
1073	China Agrotech Holdings Limited	30-Jun	PricewaterhouseCoopers	Charles Chan, Ip & Fung CPA Limited	18-Aug-04
689	Great Wall Cybertech Limited	31-Mar	S.W. Wu & Co. CPA Limited	Ting Ho Kwan & Chan	20-Aug-04
1226	Garron International Limited	31-Mar	RSM Nelson Wheeler	KLL Associates CPA Ltd.	24-Aug-04
8117	China Advance Holdings Limited	31-Dec	Charles Chan, Ip & Fung CPA Ltd.	Grant Thornton	24-Aug-04
128	e-New Media Co. Ltd	31-Dec	KPMG	Ernst & Young	27-Aug-04
512	MAXX Bioscience Holdings Limited	31-Dec	Moore Rowland Mazars	KLL Associates CPA Ltd.	1-Sep-04
8041	Intcera High Tech Group Ltd	31-Dec	HLB Hodgson Impey Cheng	KLL Associates CPA Ltd.	2-Sep-04

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
8212	Aptus Holdings Ltd	30-Sep	Ernst & Young	W.H. Tang & Partners CPA Limited	6-Sep-04
8165	Jian ePayment Systems Limited	31-Dec	PricewaterhouseCoopers	RSM Nelson Wheeler	16-Sep-04
1191	China Rich Holdings Limited	31-Jul	Ernst & Young	HLB Hodgson Impey Cheng	21-Sep-04
8169	Eco-Tek Holdings Limited	31-Oct	Ernst & Young	Grant Thornton	22-Sep-04
282	Next Media Limited	31-Mar	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	23-Sep-04
2327	Jiwa Bio-Pharm Holdings Limited	31-Mar	KPMG	Grant Thornton	23-Sep-04
8032	GreaterChina Technology Group Limited	31-July	Ernst & Young	Horwath Hong Kong CPA Limited	5-Oct-04
8090	EVI Education Asia Ltd	30-Sep	PricewaterhouseCoopers	Grant Thornton	8-Oct-04
8120	China Medical Science Limited	31-July	Ernst & Young	PKF	11-Oct-04
8003	T S Telecom Technologies Limited	31-Mar	PricewaterhouseCoopers	HLB Hodgson Impey Cheng	11-Oct-04
8128	IIN International Limited	30-Sep	Ernst & Young	Grant Thornton	10-Oct-04
274	Global Green Tech Group Limited	31-Dec	PricewaterhouseCoopers	CCIF CPA Limited	25-Oct-04
620	UDL Holdings Limited	31-July	Grant Thornton	CCIF CPA Limited	25-Oct-04
559	Hua Yi Copper Holdings Limited	31-Dec	CCIF CPA Limited	Deloitte Touche Tohmatsu	28-Oct-04
8106	Zheda Lande Scitech Limited	31-Dec	RSM Nelson Wheeler	KLL Associates CPA Ltd.	1-Nov-04
18	Oriental Press Group Limited	31-Mar	Deloitte Touche Tohmatsu	Grant Thornton	4-Nov-04
8055	ProSticks International Holdings Limited	31-Dec	Moores Rowland Mazars	Fan, Mitchell & Co.	9-Nov-04
8272	Byford International Limited	30-Apr	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	17-Nov-04
143	Global Tech (Holdings) Limited	30-Sep	RSM Nelson Wheeler	Moores Rowland Mazars	17-Nov-04
1135	Asia Satellite Telecommunications Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	17-Nov-04
493	GOME Electrical Appliances Holding Limited	31-Mar	KPMG	Ernst & Young	19-Nov-04
660	Nority International Group Limited	31-Dec	PricewaterhouseCoopers	Ho and Ho & Company	19-Nov-04
8229	Tungda Innovative Lighting Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	19-Nov-04
1114	Brilliance China Automotive Holdings Limited	31-Dec	PricewaterhouseCoopers	Moores Rowland & Mazars	19-Nov-04
757	Hutchison Global Communications Holdings Limited	31-Dec	Ernst & Young	PricewaterhouseCoopers	23-Nov-04
290	China Conservational Power Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	25-Nov-04
340	INNOMAXX Biotechnology Group Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	29-Nov-04
8068	New Universe International Group Limited	31-Dec	Ernst & Young	CCIF CPA Limited	6-Dec-04
8127	Riverhill Holdings Limited	30-Jun	Albert Lam & Co.	HLB Hodgson Impey Cheng	7-Dec-04
157	Natural Beauty Bio-Technology Limited	31-Dec	KPMG	Deloitte Touche Tohmatsu	9-Dec-04
8171	QUASAR Communication Technology Holdings Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	10-Dec-04
22	Mexan Limited	31-Mar	PricewaterhouseCoopers	Horwath Hong Kong CPA Limited	13-Dec-04
8071	Glory Future Group Limited	31-Dec	Ernst & Young	Grant Thornton	13-Dec-04

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
757	Hutchison Global Communications Holdings Limited	31-Dec	Ernst & Young	PricewaterhouseCoopers	17-Dec-04
1202	Chengdu PUTIAN Telecommunications Cable Company Limited	31-Dec	Deloitte Touche Tohmatsu	Ho and Ho & Company	17-Dec-04
1114	Brilliance China Automotive Holdings Limited	31-Dec	PricewaterhouseCoopers	Moore Rowland Mazars	20-Dec-04
969	Hua Lien International (Holding) Company Limited	31-Dec	Deloitte Touche Tohmatsu	HLM & Company	21-Dec-04
1164	Vital BioTech Holdings Limited	31-Dec	PricewaterhouseCoopers	Ho and Ho & Company	21-Dec-04
8183	Lai Fai International Holdings Limited	31-Dec	Ernst & Young	Albert Lam & Co.	22-Dec-04
8175	KanHan Technologies Group Limited	31-Dec	Deloitte Touche Tohmatsu	Moore Rowland Mazars	23-Dec-04
760	Tomorrow International Holdings Limited	31-Dec	Ernst & Young	CCIF CPA Limited	23-Dec-04
2312	Golden 21 Investment Holdings Limited	31-Dec	Ernst & Young	Grant Thornton	29-Dec-04
389	Moulin International Holdings Limited	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	30-Dec-04
430	Oriental Explorer Holdings Limited	31-Dec	Ernst & Young	HLB Hodgson Impey Cheng	31-Dec-04
898	Multifield International Holdings Limited	31-Dec	Ernst & Young	HLB Hodgson Impey Cheng	31-Dec-04
8192	AGL MediaTech Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	Grant Thornton	7-Jan-05
578	Everbest Century Holdings Limited	31-Dec	Ernst & Young	Grant Thornton	14-Jan-05
8286	Shanxi Changcheng Microlight Equipment Co., Ltd.	31-Dec	Ernst & Young	Grant Thornton	14-Jan-05
208	Polytec Asset Holdings Limited	30-Nov	Ernst & Young	Deloitte Touche Tohmatsu	18-Jan-05
8249	Ningbo Yidong Electronic Company Limited	31-Dec	PricewaterhouseCoopers	Grant Thornton	20-Jan-05
8025	Asian Information Resources (Holdings) Limited	31-Dec	PricewaterhouseCoopers	Horwath Hong Kong CPA Limited	24-Jan-05
8016	China Data Broadcasting Holdings Limited	31-Dec	Ernst & Young	BDO McCabe Lo & Company	25-Jan-05
530	Fortuna International Holdings Limited	31-Dec	Ernst & Young	Moore Stephens	26-Jan-05
8108	Grandmass Enterprise Solution Limited	31-Dec	RSM Nelson Wheeler	Cheung & Siu and HLB Hodgson Impey Cheng	28-Jan-05
621	CIG-WH International (Holdings) Limited	31-Mar	Ernst & Young	HLB Hodgson Impey Cheng	2-Feb-05
8166	Linefan Technology Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Horwath Hong Kong CPA Limited	3-Feb-05
8286	Shanxi Changcheng Microlight Equipment Co., Ltd.	31-Dec	Ernst & Young	Grant Thornton	3-Feb-05
630	Jackin International Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	4-Feb-05
339	Earnest Investments Holdings Limited	31-Dec	HLB Hodgson Impey Cheng	RSM Nelson Wheeler	7-Feb-05
876	Wing Lee Holdings Limited	30-Sep	Ernst & Young	Deloitte Touche Tohmatsu	8-Feb-05
307	Sun Sports Media Group Limited	31-Mar	Deloitte Touche Tohmatsu	CCIF CPA Limited	7-Feb-05
8020	Wanasports Holdings Limited	31-Mar	Graham H.Y. Chan & Co.	Yeung, Chan & Associates CPA Limited	22-Feb-05

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
182	Hong Kong Pharmaceutical Holdings Limited	31-Mar	Ernst & Young	Moore Stephens	24-Feb-05
612	China Investment Fund Company Limited	31-Dec	CCIF CPA Limited	KLL Associates CPA Limited	25-Feb-05
8271	Global Digital Creations Holdings Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	7-Mar-05
8188	Mudan Automobile Shares Company Limited	31-Dec	KPMG	CCIF CPA Limited	7-Mar-05
8227	Xi'an Haitian Antenna Technologies Co., Ltd.	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	9-Mar-05
8135	Chengdu Top Sci-Tech Company Limited	31-Dec	PricewaterhouseCoopers	KLL Associates CPA Limited	10-Mar-05
8101	Value Convergence Holdings Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	10-Mar-05
8202	Inno-Tech Holdings Limited	31-Mar	KPMG	PCP CPA Limited	15-Mar-05
8111	Soluteck Holdings Limited	31-Mar	PricewaterhouseCoopers	Albert Lam & Co.	17-Mar-05
599	E. Bon Holdings Limited	31-Mar	PricewaterhouseCoopers	Moores Rowland Mazars	18-Mar-05
8115	Shanghai Qingpu Fire-Fighting Equipment Co., Ltd.	N/A	PricewaterhouseCoopers	CCIF CPA Limited and Cachet Certified Public Accountants Limited	22-Mar-05
681	Chinese People Gas Holdings Company Limited	31-Mar	Ernst & Young	Deloitte Touche Tohmatsu	23-Mar-05
262	Deson Development International Holdings Limited	31-Mar	Ernst & Young	Deloitte Touche Tohmatsu	24-Mar-05
885	Forefront International Holdings Limited	31-Dec	PricewaterhouseCoopers	Moores Rowland Mazars	24-Mar-05
603	Nippon Asia Investments Holdings Limited	31-Jul	Ernst & Young	KLL Associates CPA Ltd.	31-Mar-05
200	Melco International Development Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	7-Apr-05
8229	Tungda Innovative Lighting Holdings Limited	31-Mar	HLB Hodgson Impey Cheng	Ting Ho Kwan & Chan	11-Apr-05
875	First Dragoncom Agro-Strategy Holdings Limited	31-Dec	Ernst & Young	CCIF CPA Limited	12-Apr-05
48	EganaGoldpfeil (Holdings) Limited	31-May	RSM Nelson Wheeler	Baker Tilly Hong Kong	12-Apr-05
926	Egana Jewellery & Pearls Limited	31-May	RSM Nelson Wheeler	Baker Tilly Hong Kong	12-Apr-05
8085	New Chinese Medicine Holdings Limited	31-Mar	TK Choi And Company and P Tse & Company	HLB Hodgson Impey Cheng	18-Apr-05
677	Golden Resources Development International Limited	31-Mar	Deloitte Touche Tohmatsu	KLL Associates CPA Limited	19-Apr-05
8039	Loulan Holdings Limited	31-Dec	BDO McCabe Lo & Co	Wong Brothers & Co	20-Apr-05
262	Deson Development International Holdings Limited	31-Mar	Ernst & Young	Deloitte Touche Tohmatsu	21-Apr-05
913	Unity Investments Holdings Limited	31-Dec	PricewaterhouseCoopers	Moores Rowland Mazars	22-Apr-05
8229	Tungda Innovative Lighting Holdings Limited	31-Mar	HLB Hodgson Impey Cheng	Ting Ho Kwan & Chan	27-Apr-05
708	People's Food Holdings Limited	31-Dec	Ernst & Young	Grant Thornton	28-Apr-05
1215	Guo Xin Group Limited	30-Jun	Deloitte Touche Tohmatsu	KLL Associates CPA Limited	3-May-05
8085	New Chinese Medicine Holdings Limited	31-Mar	TK Choi And Company and P Tse & Company	HLB Hodgson Impey Cheng	6-May-05
729	Gorient (Holdings) Limited	31-Mar	Moore Stephens	CCIF CPA Limited	10-May-05
8186	Medical China Limited	31-Dec	KPMG	Kennic L.H. Lui & Co. Ltd	12-May-05

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8130	Milkyway Image Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	CCIF CPA Limited	13-May-05
1137	City Telecom (H.K.) Limited	31-Aug	PricewaterhouseCoopers	KPMG	13-May-05
181	Fujian Holdings Limited	31-Mar	Nexia Charles Mar Fan & Co.	HLB Hodgson Impey Cheng	13-May-05
8143	Grandy Corporation	31-Mar	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	18-May-05
1051	Credit Card DNA Security System (Holdings) Limited	30-Jun	Deloitte Touche Tohmatsu	Ho and Ho & Company	20-May-05
8173	Panorama International Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	CCIF CPA Limited	20-May-05
389	Moulin Global Eyecare Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	31-May-05
204	Everest International Investments Limited	31-Mar	Deloitte Touche Tohmatsu	Baker Tilly Hong Kong Limited	31-May-05
326	China Star Entertainment Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	3-Jun-05
764	Riche Multi-Media Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	3-Jun-05
8086	EPRO Limited	30-Jun	Ernst & Young	CWCC	3-Jun-05
221	LeRoi Holdings Limited	31-Mar	Ernst & Young	HLB Hodgson Impey Cheng	6-Jun-05
369	USI Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	7-Jun-05
682	Chaoda Modern Agriculture (Holdings) Limited	30-Jun	CCIF CPA Limited	CCIF CPA Limited and Baker Tilly Hong Kong Limited	13-Jun-05
8190	Golding Soft Limited	30-Jun	Ernst & Young	Grant Thornton	13-Jun-05
8158	B M Intelligence International Limited	30-Apr	Deloitte Touche Tohmatsu	Grant Thornton	15-Jun-05
369	USI Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	17-Jun-05
8317	Finet Group Limited	N/A	PricewaterhouseCoopers	Grant Thornton	20-Jun-05
1180	LifeTec Group Limited	31-Dec	Deloitte Touche Tohmatsu	RSM Nelson Wheeler	22-Jun-05
8249	Ningbo Yidong Electronic Company Limited	31-Dec	Grant Thornton	Deloitte Touche Tohmatsu	6-Jul-05
929	IPE Group Limited	31-Dec	CCIF CPA Limited	Ernst & Young	6-Jul-05
166	New Times Group Holdings Limited	31-Mar	Ernst & Young	CCIF CPA Limited	8-Jul-05
8249	Ningbo Yidong Electronic Company Limited	31-Dec	Grant Thornton	Deloitte Touche Tohmatsu	12-Jul-05
20	Wheelock and Company Limited	31-Mar	PricewaterhouseCoopers	KPMG	14-Jul-05
1180	LifeTec Group Limited	31-Dec	Deloitte Touche Tohmatsu	RSM Nelson Wheeler	18-Jul-05
143	Global Tech (Holdings) Limited	30-Sep	Moore Rowland Mazars	HLB Hodgson Impey Cheng	19-Jul-05
1195	Sinotronics Holdings Limited	30-Jun	CCIF CPA Limited	KPMG	26-Jul-05
166	New Times Group Holdings Limited	31-Mar	Ernst & Young	CCIF CPA Limited	29-Jul-05
8279	MegalInfo Holdings Limited	30-Jun	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	29-Jul-05
280	King Fook Holdings Limited	31-Mar	PricewaterhouseCoopers	Grant Thornton	29-Jul-05
8249	Ningbo Yidong Electronic Company Limited	31-Dec	Grant Thornton	Deloitte Touche Tohmatsu	8-Aug-05
8015	Qianlong Technology International Holdings Limited	31-Dec	KPMG	Horwath Hong Kong CPA Limited	8-Aug-05
8167	B&S Entertainment Holdings Limited	30-Jun	Charles Chan, Ip & Fung CPA Ltd.	Hopkins CPA Ltd.	8-Aug-05
8258	Shaanxi Northwest New Technology Industry Company Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	15-Aug-05
755	Shanghai Zendai Property Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	16-Aug-05

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
8015	Qianlong Technology International Holdings Limited	31-Dec	KPMG	Horwath Hong Kong CPA Limited	16-Aug-05
165	China Everbright Limited	31-Dec	PricewaterhouseCoopers	KPMG	22-Aug-05
576	Zhejiang Expressway Co., Ltd.	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	26-Aug-05
929	IPE Group Limited	31-Dec	CCIF CPA Limited	Ernst & Young	29-Aug-05
720	Wo Kee Hong (Holdings) Limited	31-Dec	RSM Nelson Wheeler	HLB Hodgson Impey Cheng	30-Aug-05
297	Sinochem Hong Kong Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	31-Aug-05
280	King Fook Holdings Limited	31-Mar	PricewaterhouseCoopers	Grant Thornton	12-Sep-05
8089	Proactive Technology Holdings Limited	31-Dec	Horwath Hong Kong CPA Limited	ShineWing (HK) CPA Limited	12-Sep-05
8182	SYS Solutions Holdings Limited	31-Jul	Ernst & Young	Fan, Mitchell & Co.	14-Sep-05
1129	Sky Hawk Computer Group Holdings Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	15-Sep-05
254	eCyberChina Holdings Limited	30-Jun	Deloitte Touche Tohmatsu	CCIF CPA Limited	16-Sep-05
603	Nippon Asia Investments Holdings Limited	31-Jul	KLL Associates CPA Limited	BDO McCabe Lo Limited	20-Sep-05
8235	CCID Consulting Company Limited	31-Dec	Ernst & Young	CCIF CPA Limited	23-Sep-05
2324	China Northern Enterprises Investment Fund Limited	30-Jun	KLL Associates CPA Limited	BDO McCabe Lo Limited	28-Sep-05
Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
686	Gay Giano International Group Limited	31-Mar	KLL Associates CPA Limited	BDO McCabe Lo Limited	30-Sep-05
835	Wanji Pharmaceutical Holdings Limited	31-Mar	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	30-Sep-05
59	renren Holdings Limited	31-Dec	Albert Lam & Co	BDO McCabe Lo Limited	5-Oct-05
353	Orient Industries Holdings Limited	31-Dec	RSM Nelson Wheeler	Grant Thornton	6-Oct-05
959	A-Max Holdings Limited	31-Mar	RSM Nelson Wheeler	CCIF CPA Limited	17-Oct-05
721	Prime Investments Holdings Limited	30-Jun	Ernst & Young	CCIF CPA Limited	26-Oct-05
86	Sun Hung Kai & Co. Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	31-Oct-05
735	Oriental Investment Corporation Limited	30-Apr	CCIF CPA Limited	HLB Hodgson Impey Cheng	8-Nov-05
547	Sun Innovation Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Horwath Hong Kong CPA Limited	10-Nov-05
8211	Zhejiang Yonglong Enterprises Co., Ltd.	31-Dec	KLL Associates CPA Limited	Deloitte Touche Tohmatsu	11-Nov-05
909	Zhongda International Holdings Limited	31-Dec	KLL Associates CPA Limited	ShineWing (HK) CPA Limited	15-Nov-05
2668	Pak Tak International Limited	31-Mar	Deloitte Touche Tohmatsu	Baker Tilly Hong Kong Limited	16-Nov-05
758	Junefield Department Store Group Limited	31-Dec	Ernst & Young	HLB Hodgson Impey Cheng	16-Nov-05
254	eCyberChina Holdings Limited	30-Jun	CCIF CPA Limited	Homan CPA Limited	17-Nov-05
769	China Rare Earth Holdings Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	17-Nov-05

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
99	Wong's International (Holdings) Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	17-Nov-05
532	Wong's Kong King International (Holdings) Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	17-Nov-05
21	Beauforte Investors Corporation Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	17-Nov-05
185	China Credit Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	Grant Thornton	17-Nov-05
850	Wing Shing International Holdings Limited	31-Mar	PricewaterhouseCoopers	Baker Tilly Hong Kong Limited	18-Nov-05
724	Semtech International Holdings Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	21-Nov-05
8073	Recruit Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	23-Nov-05
1228	Tak Shun Technology Group Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	23-Nov-05
8235	CCID Consulting Company Limited	31-Dec	Ernst & Young	CCIF CPA Limited	25-Nov-05
723	Anex International Holdings Limited	31-Mar	Ernst & Young	CCIF CPA Limited	25-Nov-05
8106	Zheda Lande Scitech Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	28-Nov-05
8230	Shenzhen Dongjiang Environmental Company Limited	31-Dec	Ernst & Young	ShineWing (HK) CPA Limited	28-Nov-05
8150	Fast Systems Technology (Holdings) Limited	31-Dec	Deloitte Touche Tohmatsu	CWCC	2-Dec-05
8189	Tianjin TEDA Biomedical Engineering Company Limited	31-Dec	PricewaterhouseCoopers	Horwath Hong Kong CPA Limited	2-Dec-05
63	Winfoong International Limited	31-Dec	PKF	CCIF CPA Limited	6-Dec-05
202	Interchina Holdings Company Limited	31-Mar	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	7-Dec-05
850	Wing Shing International Holdings Limited	31-Mar	PricewaterhouseCoopers	Baker Tilly Hong Kong Limited and Lau & Au Yeung C.P.A. Limited	8-Dec-05
81	Shell Electric Mfg. (Holdings) Company Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	9-Dec-05
635	Playmates Holdings Limited	31-Dec	PricewaterhouseCoopers	Moores Rowland Mazars	9-Dec-05
719	Shandong Xinhua Pharmaceutical Company Limited	31-Dec	PricewaterhouseCoopers	ShineWing (HK) CPA Limited	9-Dec-05
2349	Wah Yuen Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	12-Dec-05
8225	Venturepharm Laboratories Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	13-Dec-05
120	Cosmopolitan International Holdings Limited	31-Mar	KLL Associates CPA Limited	BDO McCabe Lo Limited	14-Dec-05
8010	SMI Publishing Group Limited	31-Mar	Deloitte Touche Tohmatsu	Charles Chan, Ip & Fung CPA Ltd.	14-Dec-05
1213	Mobicon Group Limited	31-Mar	PricewaterhouseCoopers	HLB Hodgson Impey Cheng	15-Dec-05
61	Technology Venture Holdings Limited	31-Dec	Ernst & Young	Lawrence (DFK) CPA Ltd.	16-Dec-05
8137	Jessica Publications Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	19-Dec-05
8155	Capital Publications Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	19-Dec-05
812	Tanrich Financial Holdings	30-Jun	PricewaterhouseCoopers	Moores Rowland Mazars	20-Dec-05

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	Limited				
265	South China Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Ernst & Young	20-Dec-05
413	South China Industries Limited	31-Dec	Deloitte Touche Tohmatsu	Ernst & Young	20-Dec-05
8329	Shenzhen Neptunus Interlong Bio-Technique Company Limited	31-Dec	Shenzhen Dahua Tiancheng	Moore Stephens	20-Dec-05
810	China Treasure (Greater China) Investments Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	20-Dec-05
1051	Credit Card DNA Security System (Holdings) Limited	30-Jun	Ho and Ho & Company	ShineWing (HK) CPA Limited	20-Dec-05
8048	Excel Technology International Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Moores Rowland Mazars	21-Dec-05
356	Incutech Investments Limited	31-Dec	PricewaterhouseCoopers	Baker Tilly Hong Kong Limited	22-Dec-05
8171	QUASAR Communication Technology Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited and Cachet Certified Public Accountants Limited	22-Dec-05
666	Yu Ming Investments Limited	31-Dec	PricewaterhouseCoopers	Grant Thornton	23-Dec-05
959	A-Max Holdings Limited	31-Mar	RSM Nelson Wheeler	CCIF CPA Limited	23-Dec-05
1129	Sky Hawk Computer Group Holdings Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	28-Dec-05
1072	Dongfang Electrical Machinery Company Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	28-Dec-05
8006	China.com Inc.	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	29-Dec-05
1136	TCC International Holdings Limited	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	29-Dec-05
8210	Advanced Card Systems Holdings Limited	31-Dec	KPMG	Grant Thornton	4-Jan-06
8065	Innovis Holdings Limited	31-Dec	PKF	CCIF CPA Limited	5-Jan-06
1139	Victory Group Limited	31-Dec	Fan, Mitchell & Co.	Lak & Associates C.P.A. Limited	6-Jan-06
8178	Xteam Software International Limited	31-Dec	Moore Stephens	Ernst & Young	6-Jan-06
8055	ProSticks International Holdings Limited	31-Dec	Fan, Mitchell & Co.	Lak & Associates C.P.A. Limited	9-Jan-06
8116	Neolink Cyber Technology (Holding) Limited	31-Dec	RSM Nelson Wheeler	HLM & Co.,	11-Jan-06
535	Frasers Property (China) Limited	30-Sep	PricewaterhouseCoopers	Ernst & Young	11-Jan-06
472	MACRO-LINK International Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	12-Jan-06
145	The Hong Kong Building and Loan Agency Limited	31-Dec	Ernst & Young	Deloitte Touche Tohmatsu	13-Jan-06
535	Frasers Property (China) Limited	30-Sep	PricewaterhouseCoopers	Ernst & Young	16-Jan-06
8025	Asian Information Resources (Holdings) Limited	31-Dec	Horwath Hong Kong CPA Limited	CCIF CPA Limited	17-Jan-06
8182	Sys Solutions Holdings Limited	31-Jul	Fan, Mitchell & Co.	Lak & Associates C.P.A. Limited	17-Jan-06
74	Great Wall Technology Company Limited	31-Dec	Deloitte Touche Tohmatsu	Ernst & Young	18-Jan-06
878	Soundwill Holdings Limited	31-Dec	Grant Thornton	CCIF CPA Limited	19-Jan-06
1220	Ocean Grand Holdings	31-Mar	Moores Rowland Mazars	PricewaterhouseCoopers	20-Jan-06

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	Limited				
2882	Ocean Grand Chemicals Holdings Limited	31-Mar	Moore Rowland Mazars	PricewaterhouseCoopers	20-Jan-06
8148	SJTU Sunway Software Industry Limited	31-Dec	KPMG	ShineWing (HK) CPA Limited	26-Jan-06
8005	Yuxing InfoTech Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	26-Jan-06
8103	Tai Shing International (Holdings) Limited	31-Mar	CCIF CPA Limited	RSM Nelson Wheeler	9-Feb-06
140	Sanyuan Group Limited	31-Dec	Moore Rowland Mazars	RSM Nelson Wheeler	13-Feb-06
554	Hans Energy Company Limited	31-Dec	Deloitte Touche Tohmatsu	KPMG	15-Feb-06
630	Jackin International Holdings Limited	31-Dec	Grant Thornton	Deloitte Touche Tohmatsu	15-Feb-06
677	Golden Resources Development International Limited	31-Mar	KLL Associates CPA Limited	BDO McCabe Lo Limited	21-Feb-06
512	MAXX Bioscience Holdings Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	21-Feb-06
553	Nanjing Panda Electronics Company Limited	31-Dec	Shine Wing Certified Public Accountants	Yue Hua Certified Public Accountants	23-Feb-06
910	Good Fellow Group Limited	30-Jun	RSM Nelson Wheeler	Johnny Chan & Co. Limited	27-Feb-06
1215	Guo Xin Group Limited	30-Jun	KLL Associates CPA Limited	BDO McCabe Lo Limited	27-Feb-06
878	Soundwill Holdings Limited	31-Dec	CCIF CPA Limited	Grant Thornton	28-Feb-06
661	China National Resources Development Holdings Limited	30-Apr	Ting Ho Kwan & Chan	Patrick Ng & Co.	1-Mar-06
162	China Golden Development Holdings Limited	30-Apr	Chu & Chu	PKF	2-Mar-06
204	Everest International Investments Limited	31-Mar	Baker Tilly Hong Kong Limited	HLM & Company	3-Mar-06
706	FinTronics Holdings Company Limited	31-Dec	KPMG	RSM Nelson Wheeler	8-Mar-06
8111	Soluteck Holdings Limited	31-Mar	Albert Lam & Co.	W.H. Tang & Partners CPA Limited	8-Mar-06
745	Wing Hong (Holdings) Limited	31-Mar	Ernst & Young	HLB Hodgson Impey Cheng	14-Mar-06
612	China Investment Fund Company Limited	31-Dec	KLL Associates CPA Limited	BDO McCabe Lo Limited	14-Mar-06
8139	Prosperity International Holdings (H.K.) Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	15-Mar-06
1226	Garron International Limited	31-Mar	KLL Associates CPA Limited	BDO McCabe Lo Limited	15-Mar-06
1182	Foundation Group Limited	31-Mar	RSM Nelson Wheeler	CCIF CPA Limited	15-Mar-06
8041	Intcera High Tech Group Limited	31-Dec	KLL Associates CPA Limited	RSM Nelson Wheeler	16-Mar-06
910	Good Fellow Group Limited	30-Jun	RSM Nelson Wheeler	Johnny Chan & Co. Limited	17-Mar-06
351	China Sciences Conservational Power Limited	31-Dec	HLB Hodgson Impey Cheng	Horwath Hong Kong CPA Limited	21-Mar-06
162	China Golden Development Holdings Limited	30-Jun	Chu & Chu	PKF	23-Mar-06
1104	Shanghai Merchants Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Graham H.Y. Chan & Co	23-Mar-06
703	Innovo Leisure Recreation Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	BDO McCabe Lo Limited	27-Mar-06
858	Extrawell Pharmaceutical Holdings Limited	31-Mar	Ernst & Young	HLB Hodgson Impey Cheng	28-Mar-06

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336	Huabao International Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	28-Mar-06
8236	Powerleader Science & Technology Company Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	31-Mar-06
241	CITIC 21CN Company Limited	31-Mar	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	31-Mar-06
8041	Intcera High Tech Group Limited	31-Dec	RSM Nelson Wheeler	Homan CPA Limited	4-Apr-06
224	Pioneer Global Group Limited	31-Mar	Fan Mitchell & Co.	Wong Brothers & Co	4-Apr-06
417	Tse Sui Luen Jewellery (International) Limited	28-Feb	KPMG	Moore Stephens	6-Apr-06
8029	Galileo Capital Group Limited	31-Mar	Deloitte Touche Tohmatsu	Homan CPA Limited	7-Apr-06
859	Zida Computer Technologies Limited	31-Mar	Deloitte Touche Tohmatsu	Horwath Hong Kong CPA Limited	7-Apr-06
8079	B.A.L. Holdings Limited	31-Oct	Chang Leung Hui & Li C.P.A. Limited	Grant Thornton	7-Apr-06
125	Sun Hing Vision Group Holdings Limited	31-Mar	Deloitte Touche Tohmatsu and BDO McCabe Lo Limited	BDO McCabe Lo Limited	10-Apr-06
989	China Motion Telecom International Limited	31-Mar	PricewaterhouseCoopers	Moores Rowland Mazars	10-Apr-06
630	Jackin International Holdings Limited	31-Dec	Grant Thornton	Deloitte Touche Tohmatsu	12-Apr-06
8119	Thiz Technology Group Limited	31-Mar	PKF	Horwath Hong Kong CPA Limited	13-Apr-06
1228	Tak Shun Technology Group Limited	31-Dec	BDO McCabe Lo Limited	Lo and Kwong C.P.A. Company Limited	20-Apr-06
1229	Artfield Group Limited	31-Mar	KLL Associates CPA Limited	ShineWing (HK) CPA Limited	21-Apr-06
645	KTP Holdings Limited	31-Mar	PricewaterhouseCoopers	ShineWing (HK) CPA Limited	26-Apr-06
603	Nippon Asia Investments Holdings Limited	31-Jul	BDO McCabe Lo Limited	Ting Ho Kwan Chan	28-Apr-06
8041	Intcera High Tech Group Limited	31-Dec	RSM Nelson Wheeler	Homan CPA Limited	2-May-06
8220	China Photar Electronics Group Limited	31-Mar	HLB Hodgson Impey Cheng	CCIF CPA Limited	3-May-06
8045	Jiangsu NandaSoft Company Limited	31-Dec	Deloitte Touche Tohmatsu	Cachet Certified Public Accountants Limited	4-May-06
8026	Prosten Technology Holdings Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	4-May-06
8026	Prosten Technology Holdings Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	8-May-06
851	MAE Holdings Limited	30-Apr	Deloitte Touche Tohmatsu	CCIF CPA Limited	9-May-06
566	RBI Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	10-May-06
855	China Water Affairs Group Limited	31-Mar	RSM Nelson Wheeler	Grant Thornton	12-May-06
135	CNPC (Hong Kong) Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	12-May-06
8228	Vertex Communications & Technology Group Limited	31-Dec	Deloitte Touche Tohmatsu	Grant Thornton	12-May-06
335	Upbest Group Limited	31-Mar	Chu and Chu	Li, Tang, Chen & Co.	16-May-06
768	UBA Investments Limited	31-Mar	Chu and Chu	Li, Tang, Chen & Co.	16-May-06
146	Tai Ping Carpets International Limited	31-Dec	PricewaterhouseCoopers	BDO McCabe Lo Limited	17-May-06
575	Regent Pacific Group Limited	31-Mar	PricewaterhouseCoopers	Grant Thornton	18-May-06
8197	Northeast Tiger Pharmaceutical Co., Ltd.	31-Dec	HLB Hodgson Impey Cheng	Patrick Ng & Company	19-May-06

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
628	Teem Foundation Group Ltd.	31-Mar	Ernst & Young	HLB Hodgson Impey Cheng	23-May-06
677	Golden Resources Development International Limited	31-Mar	BDO McCabe Lo Limited	HLM & Co.	25-May-06
8153	China Chief Cable TV Group Limited	31-Mar	CCIF CPA Ltd.	Hopkins CPA Ltd.	25-May-06
8026	Prosten Technology Holdings Limited	31-Mar	Ernst & Young	RSM Nelson Wheeler	25-May-06
8058	Shandong Luoxin Pharmacy Stock Co., Ltd.	31-Dec	PricewaterhouseCoopers	HLB Hodgson Impey Cheng	26-May-06
1226	Garron International Limited	31-Mar	BDO McCabe Lo Limited	HLM & Co.	5-Jun-06
229	Raymond Industrial Limited	31-Dec	PricewaterhouseCoopers	Baker Tilly Hong Kong Limited	5-Jun-06
8188	Mudan Automobile Shares Company Limited	31-Dec	CCIF CPA Limited	Lo and Kwong C.P.A. Company Limited	6-Jun-06
262	Deson Development International Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	Ernst & Young	6-Jun-06
164	Premium Land Limited	31-Mar	Deloitte Touche Tohmatsu	Ting Ho Kwan & Chan	8-Jun-06
297	Sinochem Hong Kong Holdings Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	9-Jun-06
120	Cosmopolitan International Holdings Ltd	31-Mar	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	9-Jun-06
632	China Merchants DiChain (Asia) Limited	31-Mar	Deloitte Touche Tohmatsu	CCIF CPA Limited	14-Jun-06
146	Tai Ping Carpets International Limited	31-Dec	PricewaterhouseCoopers	BDO McCabe Lo Limited	16-Jun-06
290	China Conservational Power Holdings Limited	31-Mar	HLB Hodgson Impey Cheng	Horwath Hong Kong CPA Limited	19-Jun-06
8086	EPRO Limited	30-Jun	CWCC Certified Public Accountants	Cachet Certified Public Accountants Limited	20-Jun-06
3344	Addchance Holdings Limited	31-Dec	Deloitte Touche Tohmatsu and Stephen Liu And Company	Deloitte Touche Tohmatsu	21-Jun-06
318	Vongroup Limited	30-Apr	Ernst & Young	RSM Nelson Wheeler	4-Jul-06
2330	Techwayson Holdings Limited	30-Jun	CCIF CPA Limited	Moores Rowland Mazars	12-Jul-06
186	The Grande Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Moore Stephens	12-Jul-06
8046	Tiger Tech Holdings Limited	30-Jun	Moores Rowland Mazars	K.S. Liu & Company	14-Jul-06
295	Kong Sun Holdings Limited	31-Dec	RSM Nelson Wheeler	CCIF CPA Limited	20-Jul-06
349	Industrial and Commercial Bank of China (Asia) Limited	31-Dec	PricewaterhouseCoopers	Ernst & Young	31-Jul-06
660	Nority International Group Limited	31-Dec	Ho and Ho & Company	Ernst & Young	7-Aug-06
254	eCyberChina Holdings Limited	30-Jun	Homan CPA Limited	Patrick Ng & Company	8-Aug-06
1126	Dream International Limited	31-Dec	KPMG	PricewaterhouseCoopers	11-Aug-06
8253	Sanmenxia Tianyuan Aluminum Company Limited	31-Dec	PricewaterhouseCoopers	Martin C.K. Pong & Company	11-Aug-06
Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
649	Shimao International Holdings Limited	31-Dec	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	15-Aug-06
1062	New Capital International Investment Limited	31-Dec	KPMG	Deloitte Touche Tohmatsu	16-Aug-06
1215	Guo Xin Group Limited	30-Jun	BDO McCabe Lo Limited	HLB Hodgson Impey Cheng	18-Aug-06

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
2330	Techwayson Holdings Limited	30-Jun	CCIF CPA Limited	Moore Rowland Mazars	18-Aug-06
360	New Focus Auto Tech Holdings Limited	31-Dec	PricewaterhouseCoopers	BDO McCabe Lo Limited	29-Aug-06
2324	Sino Katalytics Investment Corporation	30-Jun	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	29-Aug-06
612	China Investment Fund Company Limited	31-Dec	BDO McCabe Lo Limited	HLM & Co.	30-Aug-06
25	Chevalier International Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	5-Sep-06
508	Chevalier iTech Holdings Limited	31-Mar	Deloitte Touche Tohmatsu	PricewaterhouseCoopers	5-Sep-06
601	Group Sense (International) Limited	31-Mar	Deloitte Touche Tohmatsu	Ernst & Young	5-Sep-06
8106	Zheda Lande Scitech Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	21-Sep-06
77	AMS Public Transport Holdings Limited	31-Mar	PricewaterhouseCoopers	Moore Rowland Mazars	16-Oct-06
512	MAXX Bioscience Holdings Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	18-Oct-06
125	Sun Hing Vision Group Holdings Limited	31-Mar	BDO McCabe Lo Limited	Deloitte Touche Tohmatsu	27-Oct-06
476	China Elegance (Holdings) Limited	31-Mar	Johnny Chan & Co. Limited	Horwath Hong Kong CPA Limited	6-Nov-06
681	Chinese People Gas Holdings Company Limited	31-Mar	Deloitte Touche Tohmatsu	ShineWing (HK) CPA Limited	7-Nov-06
172	Goldbond Group Holdings Limited	31-Mar	KPMG	Deloitte Touche Tohmatsu	10-Nov-06
175	Geely Automobile Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Moore Rowland Mazars	13-Nov-06
111	Hantec Investment Holdings Limited	31-Dec	PricewaterhouseCoopers	KPMG	13-Nov-06
112	Chi Cheung Investment Company Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	15-Nov-06
127	Chinese Estates Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	15-Nov-06
286	G-Prop (Holdings) Ltd	31-Dec	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	15-Nov-06
724	Sino-Tech International Holdings Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	17-Nov-06
8108	Co-winner Enterprise Limited	31-Dec	Cheung & Siu and HLB Hodgson Impey Cheng	HLB Hodgson Impey Cheng	20-Nov-06
310	Prosperity Investment Holdings Limited	31-Dec	RSM Nelson Wheeler	H.H. Liu & Co.	20-Nov-06
111	Hantec Investment Holdings Limited	31-Dec	PricewaterhouseCoopers	KPMG	22-Nov-06
8029	Galileo Capital Group Limited	31-Mar	Homan CPA Limited	Grant Thornton	24-Nov-06
810	China Treasure (Greater China) Investments Limited	31-Dec	Grant Thornton	Lau & Au Yeung C.P.A. Limited	27-Nov-06
76	South Sea Petroleum Holdings Limited	31-Dec	Johnny Chan & Co. Limited	K.M.Choi & Au Yeung Limited	27-Nov-06
140	Sanyuan Group Limited	31-Dec	RSM Nelson Wheeler	CCIF CPA Limited	27-Nov-06
1163	Bright International Group Limited	31-Dec	Ernst & Young	Grant Thornton	29-Nov-06
371	Shang Hua Holdings Limited	30-Jun	Deloitte Touche Tohmatsu	HLM & Co.	30-Nov-06
8011	Kanstar Environmental Paper Products Holdings Limited	31-Dec	Louis Leung & Partners CPA Limited	Patrick Ng & Company	30-Nov-06
340	INNOMAXX Biotechnology Group Limited	31-Dec	Deloitte Touche Tohmatsu	KPMG	30-Nov-06

Stock Code	Listed Company Name	Year End Date	Previous Auditor Name	New Auditor Name	Announcement Date
970	Jade Dynasty Group Limited	31-Mar	Deloitte Touche Tohmatsu	Grant Thornton	30-Nov-06
660	Nority International Group Limited	31-Dec	Ernst & Young	ShineWing (HK) CPA Limited	5-Dec-06
8051	TeleEye Holdings Limited	30-Jun	Deloitte Touche Tohmatsu	HLB Hodgson Impey Cheng	8-Dec-06
208	Polytec Asset Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	KPMG	8-Dec-06
660	Nority International Group Limited	31-Dec	Ernst & Young	ShineWing (HK) CPA Limited	8-Dec-06
765	Perfectech International Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	HLM and Co.	8-Dec-06
121	Chia Tai Enterprises International Limited	31-Dec	Deloitte Touche Tohmatsu	KPMG	12-Dec-06
8319	Yusei Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	ShineWing (HK) CPA Limited	13-Dec-06
8226	Sonavox International Holdings Limited	31-Dec	PricewaterhouseCoopers	ShineWing (HK) CPA Limited	14-Dec-06
925	Peaktop International Holdings Limited	31-Dec	Ernst & Young	CCIF CPA Limited	14-Dec-06
8025	Asian Information Resources (Holdings) Limited	31-Dec	CCIF CPA Limited	Patrick Ng & Company	14-Dec-06
8198	Wafer Systems Limited	31-Dec	Deloitte Touche Tohmatsu	CCIF CPA Limited	15-Dec-06
24	Burwill Holdings Limited	31-Dec	PricewaterhouseCoopers	HLB Hodgson Impey Cheng	18-Dec-06
2349	Wah Yuen Holdings Limited	31-Dec	Hodgson Impey Cheng	HLM & Co.	18-Dec-06
8301	Shenzhen Mingwah Aohan High Technology Corporation Limited	31-Dec	Deloitte Touche Tohmatsu	ShineWing (HK) CPA Limited	18-Dec-06
8205	Shanghai Jiaoda Withub Information Industrial Company Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	22-Dec-06
1224	Qualipak International Holdings Limited	31-Dec	Deloitte Touche Tohmatsu	Ernst & Young	27-Dec-06
8280	Xinjiang Tianye Water Saving Irrigation System Company Limited	31-Dec	Deloitte Touche Tohmatsu	ShineWing (HK) CPA Limited	28-Dec-06
1170	Kingmaker Footwear Holdings Limited	31-Mar	Ernst & Young	BDO McCabe Lo Limited	28-Dec-06
456	New City (China) Development Limited	31-Dec	BDO McCabe Lo Limited	ShineWing (HK) CPA Limited	29-Dec-06
1164	Vital BioTech Holdings Limited	31-Dec	Ho and Ho & Company	ShineWing (HK) CPA Limited	29-Dec-06

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