



Press Release

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Subject	BDO study on corporate governance: Hong Kong major listed companies fall short of expectation in internal controls and risk management	

Hong Kong major listed companies fall short of expectations in internal controls and risk management: BDO study on corporate governance

Hong Kong - The leading accounting firm BDO's latest annual study - Corporate Governance Review ("BDO CG Review") announced today indicates that among the 232 major Hong Kong listed companies in the Hang Seng Composite Index (HSCI), compliance on internal controls and risk management were found below expectation.

Patrick Rozario, Partner and Head of Risk Advisory of BDO Hong Kong said, "Companies recognised the importance of quality internal control reviews and risk management in the aftermath of financial crisis; however, our study revealed that more listed companies failed to fully comply with the related regulations especially in respect of providing disclosures on their practices."

The BDO CG Review found a continuous decline of companies stating that annual reviews of the effectiveness of their internal controls have been conducted. In the last two years, the declining trends are as follows: HSI (from 100% in 2009 to 91% in 2011), HSCI (from 94% to 88%) and HSCEI (from 100% to 79%) companies (*Table 1*). Significantly, the compliance rate of HSCEI companies represents the most disappointing drop of 6% and 21% from 2010 and 2009 respectively. Even for those with such a practice in place, fewer companies provided detailed explanations about their reviews. In particular, only 15% of HSCI companies disclosed details of how the board reviewed their internal controls.

Table 1. Percentage of companies reviewed the effectiveness of their internal controls at least annually

	2009	2010	2011
HSI	100%	93%	91%
HSCI	94%	92%	88%
HSCEI	100%	85%	79%

Source: BDO CG Review

“It is important for companies to explain the effectiveness of the actions they have taken to design, implement and monitor their internal control environment in their annual reports, so as to provide a sufficient degree of transparency and accountability. Companies should strive to address the concerns of shareholders in this area.” Patrick commented.

Another key finding of the BDO CG Review is regarding risk management. It is noteworthy to reveal that less than half of the HSCI (38%) and HSCEI (36%) companies described how they identified, assessed and managed risks. Moreover, there was a slight decline of 1% for HSI (65%) companies in doing so. In addition, only few companies demonstrated how they linked their risk management system to corporate objectives and strategic goals, as well as how key strategic risks were addressed.

“In today’s difficult economic environment, risk management is especially vital for companies to identify and mitigate any threats which may hinder companies to achieve their business objectives. Companies can also enhance investor confidence by providing comprehensive information about their risk management practices.” Patrick added.

On the other hand, the compliance rate with the provision for one-third of the board to consist of Independent Non Executive Directors (INEDs) remained relatively unchanged among HSI (74%) and HSCI (73%) companies. There was a 2% decline for HSCEI companies (90%) to achieve the recommended board balance due to one company increased the number of its board members. The Hong Kong Exchange and Clearing Limited (HKEx) has upgraded this to a mandatory rule that requires all listed companies to comply with such regulation by 31 December 2012.

“It is challenging for companies to adopt the new changes which emphasise on board independence; however it is undoubtedly a good way to increase the likelihood of a better balance against any inherent bias thus help bolster investor confidence. Hong Kong has historically been less stringent than other places about the presence of INEDs on board. These changes mark an important step that brings Hong Kong’s regulatory requirements in pace with those of other leading markets.” Patrick commented.

In terms of Corporate Social Responsibility (CSR), although HKEx did not specifically address this subject, it is encouraging to find that companies have improved their commitment and disclosure of CSR programmes in the last two years. For instance, more companies reported the impact of their business activities on environment. There is a gradual trend for companies to hire external auditors to verify their disclosures related to CSR objectives and practices. With the rising expectation from the public on CSR, it is not surprising to see companies enhance their quality of disclosure.

“Our CG Review this year shows a levelling off in the rate of improvement in terms of the number of companies that claim to comply fully with the Code on Corporate Governance Practices (the “Code”). However, there are several areas that companies should consider to improve, in order to enhance the quality of their corporate governance. In particular, we advise Hong Kong listed companies to strengthen their transparency of disclosures in their annual reports. With the revisions of the Code in 2012, we hope to see vitality in our corporate governance practices.” Patrick concluded.

Note to editors

About BDO Corporate Governance Review 2011

The BDO Corporate Governance Review 2011 is an extensive annual analysis conducted by BDO of the corporate governance practices of a total of 232 Hang Seng Composite Index (HSCI) companies. This is the sixth consecutive year, the review was carried out by answering around 40 survey questions using information disclosed in the annual reports of the companies. Questions not only covered compliance with mandatory code provisions, but also recommended best practices of the Code on Corporate Governance Practices and particular subjects of interest. The Review findings were summarised in a 24-page report which can be obtained from BDO.

About BDO Limited

BDO Limited in Hong Kong is a member firm of the international BDO network of independent member firms. BDO is a global accountancy network with over 1,100 offices in more than 135 countries and over 48,000 people providing advisory services throughout the world. BDO Limited was established in Hong Kong in 1981 and is committed to facilitating the growth of businesses by advising the people behind them. BDO Limited provides an extensive range of professional services including assurance services, specialist advisory services, risk advisory services, tax services and business services. For more details, visit www.bdo.com.hk.

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新聞稿

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題目	立信德豪企業管治報告：本港大型上市公司內部監控及風險管理表現未如理想	

本港大型上市公司內部監控及風險管理表現未如理想：立信德豪企業管治報告

香港 — 根據立信德豪會計師事務所最新年度研究報告《企業管治檢討報告》顯示，在232家恒生綜合指數成分股公司中，內部監控及風險管理的合規率未達期望。

立信德豪合夥人及風險諮詢服務總監羅柏達表示：「金融危機後，不少公司對高質素內部監控和風險管理的重要性愈來愈著重。然而，今次調查發現，未能全面遵守有關法則的上市公司數目有上升跡象，尤其在披露公司於有關方面的做法，表現顯著遜色。」

立信德豪《企業管治檢討報告》亦發現，公司說明有進行年度內部監控成效檢討的數目持續下降。過去兩年，跌幅分別為：恒生指數成分股公司(由2009年100%降至2011年91%)、恒生綜合指數成分股公司(由94%降至88%)及恒生中國企業指數成分股公司(由100%降至79%)(表一)。其中較顯著的下滑為恒生中國企業指數成分股公司，較2010及2009年分別下跌6%及21%，情況令人失望。即使公司每年檢討內部監控成效，詳細解釋有關情況的公司數目亦有所減少。當中僅15%恒生綜合指數成分股公司仔細說明董事會如何檢討公司內部監控的有效性。

表一. 公司最少每年檢討一次內部監控成效的百分比

	2009	2010	2011
恒生指數成分股公司	100%	93%	91%
恒生綜合指數成分股公司	94%	92%	88%
恒生中國企業指數成分股公司	100%	85%	79%

資料來源：立信德豪《企業管治檢討報告》

羅柏達認為：「公司於年報內解釋如何規劃、實施和監督內部監控工作，可大大提升其透明度及問責性。因此，公司絕不應忽視有關檢討內部監控成效的資料披露，積極回應這些股東關心的問題。」

在風險管理方面，立信德豪《企業管治檢討報告》顯示，不足半數恒生綜合指數成分股公司(38%)及恒生中國企業指數成分股公司(36%)描述如何識別、評估及管理風險。而恒生指數成分股公司的數字亦稍微下降1%至65%。值得注意的是，只有少數公司說明其風險管理系統與企業及策略目標有何聯繫，以及如何解決這些主要策略風險。

羅柏達指出：「在現今經濟困難情況下，風險管理有助公司辨別和減低可能阻礙其實現業務目標的威脅。公司透過全面闡述風險管理方法，可提升投資者信心。」

另外，在董事會由三分之一獨立非執行董事組成的規定方面，恒生指數成分股公司及恒生綜合指數成分股公司的合規率跟上年比較差不多，分別為 74%及 73%。恒生中國企業指數成分股公司的合規率則微降 2%至 90%，原因是其中一家公司在新增董事會成員時未能維持董事會成員數目的平衡。香港交易及結算所有限公司（下稱香港交易所）已將此升級為強制性規則，要求所有上市公司必須於 2012 年 12 月 31 日前達到這規定。

羅柏達提到：「這些針對董事會獨立性的轉變，對上市公司來說可算一項新挑戰。然而，新規例無疑有助平衡董事會中固有的意見，從而增強投資者信心。相比起其他主要市場，香港一直以來對董事會中獨立非執行董事所佔比例的要求較為寬鬆。是次改變標誌著重要的一步，使香港的上市監管要求與其他主要市場看齊。」

在企業社會責任方面，雖然香港交易所並無特別提及這問題，但公司在過去兩年對履行和披露其企業社會責任項目的表現令人鼓舞。如愈來愈多公司報告其業務活動對環境所造成的影響。而聘請外部核數師核實公司對企業社會責任目標和做法的資料披露亦漸成趨勢。隨著公眾對企業社會責任的期望增加，公司提高相關訊息披露質素的情況亦不令人意外。

羅柏達總結說：「本年度立信德豪企業管治報告顯示，對於聲稱完全遵守《企業管治常規守則》的公司數目，其改善速度保持平穩。但是，公司在幾個範疇仍有改善空間。故此，我們殷切期望香港上市公司加強其年報中資料披露的透明度，從而提高企業管治的質素。我們期望，《企業管治常規守則》在 2012 年的新修訂為公司的企業管治帶來新景象。」

編輯垂注

有關立信德豪企業管治檢討報告2011

立信德豪企業管治報告2011為立信德豪對232家恒生綜合指數成分股公司，就有關企業管治的全面檢討研究。是次研究已是連續第六年進行，研究包括約40條問題，主要採用了各公司於其年度報告中所披露的資料。調查不單涵蓋公司遵守《企業管治常規守則》強制性條文的情況，更包括建議最佳常規及其他值得注意的項目。調查結果刊載於篇幅達24頁的報告內，如欲參閱，可向立信德豪索取。

有關香港立信德豪會計師事務所有限公司 (BDO Limited)

香港立信德豪會計師事務所有限公司是為BDO會計師事務所國際網絡的香港成員所。BDO國際網絡遍佈全球超過130個國家，透過1,100多個辦事處及超過48,000名專業人員，在世界各地提供財務諮詢服務。香港BDO自1981年在香港成立，致力透過全面的專業服務協助企業成長。專業服務包括審計服務、專項諮詢服務、風險諮詢服務、稅務及商業服務。有關詳情，可參閱網址www.bdo.com.hk。

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