Press Release

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Subject	BDO study on corporate governance: New rules shall push Hong Kong listed companies move forward	

New rules shall push Hong Kong listed companies move forward

Hong Kong – The leading accounting firm BDO's latest annual study - Corporate Governance Review (BDO CG Review) found that while most of the 241 major Hong Kong listed companies surveyed meet the basic requirements of the current rules and regulations set by regulators, the quality of their disclosure appear to fall short of public expectation. Meanwhile, with the new rules and guidance took effective in 2012 and listed companies are required to disclose the relevant changes for complying such new rules in 2013, an improvement in their corporate governance performance next year is anticipated.

The level of full compliance with the Corporate Governance Code (The Code) seemed to have plateaued according to BDO CG Review. Just over half of both Hang Seng Index (HSI) and Hang Seng Composite Index (HSCI) companies achieved full compliance, whereas Hang Seng China Enterprises Index (HSCEI) companies once again reported a relatively high rate of 80%. (Table 1)

Table 1. Percentage of companies claimed that they have fully compliance with the Code

	2010	2011	2012
HSI	54%	54%	53%
HSCI	53%	51%	54%
HSCEI	77%	82%	80%

Source: BDO CG Review

Patrick Rozario, Director and Head of Risk Advisory of BDO Hong Kong said, "The Code and Listing rules had been implemented since 2005 and we began to track the quality of the major listed companies' corporate governance disclosure for seven years. After the first two years of the launch of the Code, we have observed that there is no significant improvement in compliance generally. Companies seem to have reached a certain level of self-satisfaction about the extent to which they have adopted corporate governance principles. In fact, they should not simply adopt an approach that only meets the minimum requirements."

In view of the moderate improvement of corporate governance performance, the Hong Kong Exchanges and Clearing Limited (HKEx) carried out a series of changes to drive listed companies to change their corporate governance standards positively.

"The implementation of the new and revised corporate governance mechanisms also provides a chance for companies to reassess their old practices and techniques. Such an approach would hopefully help bring many locally listed companies up to the standards of their peers overseas." Patrick added.

Communications between boards and shareholders is essential for good corporate governance. This year's review found that companies have static performance in this area, with 70%, 61%, and 51% of HSCEI, HSCI and HSI companies respectively offering basic information about the steps taken by their board to understand the views of and communicate with their shareholders. On the other hand, HKEx emphasised the importance of the active engagement of shareholders in the new provisions that took effect this year. Companies are now required to review their shareholder communication policy on a regular basis. However this year's review revealed that only 20% and 16% of HSI and HSCI companies respectively had established and reviewed a formal communication policy.

"Since this new provision only took effect early this year, perhaps next year's reports will reflect an improvement in practice. However it is important for management to know that shareholders deserve more meaningful information about the companies, which will affect their investment plan. If companies can maintain a sound communication policy and keep shareholders updated, a good corporate governance environment can be demonstrated in the long run." Patrick explained.

Another key finding of the BDO CG Review is regarding the role of the board. It was disappointing to see that the quality of explanation has remained relatively unchanged this year. The number of HSCI and HSI companies that did not provide informative disclosure slightly declined to 34% and 55% respectively. Some of the companies only repeated statements from the previous year, providing minimal insight into how the board operates and makes decisions. Besides, more than 66% of HSCI companies failed to report its board's participation in professional development.

"Every director should be able to allocate sufficient time to the company's affairs in order to discharge his or her responsibilities and duties effectively. The latest Code revision emphasises the duties and responsibilities of the company board, how it should behave, and for the qualifications and efforts of its directors to be developed continuously. Companies may need more time to adapt the new guidance on the continuous training of directors." Patrick commented.

When look at the formation of the board committees, the review found that there has been an impressive increase in the number of companies who have established a nomination committee containing a majority of INEDs. (Table 2 & Table 3)

Table 2 Percentage of having nomination committee

	2010	2011	2012
HSI	59%	57%	71%
HSCI	58%	60%	73%
HSCEI	72%	82%	83%

Source: BDO CG Review

Table 3 Percentage of having majority of members INEDs in nomination committee

	2010	2011	2012
HSI	92%	88%	94%
HSCI	90%	90%	94%
HSCEI	82%	81%	91%

Source: BDO CG Review

"HKEx made a number of changes to the regulations governing the formation of board committees, which took effect in early 2012. It is encouraging to note that although the provision only took effect in early 2012, most companies indicated in their reports that the majority of members in the nomination committee are INEDs." Patrick said.

Besides, HKEx has also focused on clarifying the board's assignment of responsibilities to committees, aims to deal with issues of transparency and independence as well. It is noteworthy to reveal that Hong Kong companies remained inconsistent about their disclosures of the terms of reference for their audit, remuneration and nomination committees.

"Most companies who did comply indicated in their annual reports and on their websites that such terms of reference existed, but they did not state whether these were available for inspection. Again, stakeholders deserve to understand the formation of the board committees, their responsibility, the determination of the remuneration packages of directors, and the linkage between remuneration and company performance." Patrick said.

"Communication and transparency are the spirit and principle of corporate governance. It is no doubt that Hong Kong companies can perform far beyond what they are currently doing. Companies should not self-satisfy with only complying the basic requirement of the Code and Listing rule. HKEx's new rules and guidance drive them move to the next step in order to improve the quality of disclosure and transparency, and eventually in line with the international standards." Patrick concluded.

Note to editors	About BDO Corporate Governance Review 2012 The BDO Corporate Governance Review 2012 is an extensive annual analysis conducted by BDO of the corporate governance practices of a total of 241 Hang Seng Composite Index (HSCI) companies. This is the seventh consecutive year, the review was carried out by answering around 45 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 26-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 1,200 offices in more than 135 countries and over 54,000 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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