Press Release

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Subject	**BDO study: HK listed companies showing tepid reactions to new corporate governance rules, while transparency and disclosure remains the key**	

BDO study: HK listed companies showing tepid reactions to new corporate governance rules, while transparency and disclosure remains the key

Hong Kong – The leading accounting firm BDO's latest annual research - Corporate Governance Review found that among the 222 major Hong Kong listed companies studied, the full compliance level with the Corporate Governance Code (the Code) has dropped dramatically for the first time since the introduction of the Code (Table 1). Companies remained slow in making changes to satisfy the latest revisions made to the Code. According to BDO, while striving to attract quality companies to list in the Hong Kong capital market, good transparency and disclosure stay as key factors to strengthen Hong Kong's appeal to a diverse base of international investors.

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

	2006	2007	2008	2009	2010	2011	2012	2013
HSI	50%	54%	51%	52%	54%	54%	53%	42%
HSCI	41%	49%	56%	51%	53%	51%	54%	37%
HSCEI	50%	73%	74%	86%	77%	82%	80%	67%

Source: BDO CG Review

Patrick Rozario, Director and Head of Risk Advisory of BDO commented, "This year's exercise has proven to be particularly interesting. Changes to the Corporate Governance Code and the related Rules Governing the Listing of Securities on the Stock Exchange were introduced in 2012, the first major overhaul since 2005. 2013 was the first time that we could assess the full impact of the many changes and, as expected, the latest revisions have posed challenges to listed companies."

The consistent level of over 50% compliance in previous years slipped to 42%, 37% and 67% of Hang Seng Index, Hang Seng Composite Index and Hang Seng China Enterprises Index companies respectively. As revealed by BDO's study, while 58% of companies reported non-compliance with the regulation, this was usually due to only one or two provisions not being met. With the latest amendments to the Code and the related Listing Rules that took effect in 2012, the most commonly reported forms of non-compliance this year are related to board balance and communication to shareholders.

Patrick Rozario said, “There was a concentration of non-compliance over the small enhancement to the protection of shareholder interests, specifically, to protect minority shareholders interests through better board balance and communication. Such a snub only serves to weaken Hong Kong’s role as an international financial centre”.

That Hong Kong continues development as an international financial centre is vital to the economy and its stability.

Like other Asian countries, many Hong Kong listed companies have concentrated ownerships, with a large number under family control. Additionally, many Chinese enterprises that have listed recently in Hong Kong have shown a similar structure of concentrated ownerships, through either family control or in the form of state-owned enterprises. Companies in the UK and US usually have more diverse ownership, where conflicts usually arise between shareholders and management. With concentrated ownership, conflicts are complicated with the presence of controlling shareholders (who are often the managers or appointed the managers of the company) and minority shareholders.

Much academic research has been conducted related to family controlled companies and there is strong evidence to support minority interests can be expropriated by controlling family interests. This expropriation of minority shareholders interest fosters an unwelcoming environment for most, leading to less investment and threatening Hong Kong’s status as an international financial centre.

Patrick Rozario commented, “Taking control away from families is not a workable solution; our regulators should find ways to promote broader involvement in these companies through more independent and diverse boards, better corporate governance practices in enhancing the transparency and disclosure of inside information, connected parties transactions and shareholders communications.”

“As China’s financial industry continues to mature, our role as an intermediary will diminish, therefore, our long-term standing as an international financial centre depends on our ability to attract a diverse base of international investors by introducing corporate governance that protect their interests,” Patrick Rozario concluded.

Note to editors	About BDO Corporate Governance Review 2013 The BDO Corporate Governance Review 2013 is an extensive annual analysis conducted by BDO of the corporate governance practices of a total of 222 Hang Seng Composite Index (HSCI) companies. This is the seventh consecutive year, the review was carried out by answering around 48 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 140 countries and over 56,000 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.	
Contacts	Patrick Rozario Director and Head of Risk Advisory, BDO Hong Kong	Tel +852 2218 3118 patrickrozario@bdo.com.hk
	Estella Tsui Marketing Director, BDO Hong Kong	Tel +852 2218 3207 Mobile +852 9624 4799 estellatsui@bdo.com.hk
	Sala Lo Marketing Manager, BDO Hong Kong	Tel +852 2218 3042 Mobile +852 9613 5175 salalo@bdo.com.hk