



# Press Release

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Subject	BDO study: Proposed changes prompting HK listed companies to enhance corporate governance	

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## BDO study: Proposed changes prompting HK listed companies to enhance corporate governance

Hong Kong - The leading accounting firm BDO's latest annual research - Corporate Governance Review found that among the 238 major Hong Kong listed companies surveyed, the rate of full compliance with the Corporate Governance Code (the Code) remained relatively unchanged. However, less than 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 reported a decline from 67% to 58% in their compliance level (Table 1). The newly proposed changes related to internal control and risk management by the Hong Kong Exchanges and Clearing Limited (HKEx) may prompt companies to enhance their governance to better manage their risks and challenges.

Table 1 Percentage of companies claiming to have fully compliance with the Corporate Governance Code

	2012	2013	2014
HSI	53%	42%	42%
HSCI	54%	37%	38%
HSCEI	80%	67%	58%

Source: BDO CG Review

Patrick Rozario, Director and Head of Risk Advisory of BDO commented, "It is disappointing that this year we saw a further dip in the full compliance level with the Code which had been originally introduced almost a decade. Companies should avoid complacency and take initiative to improve the compliance level."

While listed companies are still struggling to follow the 2011 revisions of the Code, the HKEx published a consultation paper in June this year, encouraging listed companies to look deeper

into the interconnected relationship between risk management and internal control along with management and board responsibilities.

Patrick Rozario said, “The proposed changes should have beneficial effects when companies reassess their governance framework. To some boards and management who are still striving to follow the 2011 provisions, implementing these changes may seem challenging, yet it is important that they capitalise them as opportunities to improve their business.”

The interrelated nature of risk management and internal controls has raised stakeholders’ attention. The new consultation paper accentuates that internal controls are an important part of risk management, and proposes to strengthen the oversight and transparency of risk management and internal control systems.

BDO study reveals an increase in non-compliance in the area of internal control review, and deterioration in its quality of disclosure. The majority of companies undertook the annual review of the effectiveness of their internal control systems, but there is a decline from 96% to 94% and 92% to 88% for HSCI and HSCEI companies respectively (Table 2). As fewer companies assessed the effectiveness of their internal controls, they offered less insight about the subject in their report. Compare to the figures of 2013, there is a decline in all three indices companies in disclosing how the board and committees review the effectiveness of their internal control systems (Table 3).

Table 2 Percentage of companies claiming to have reviewed the effectiveness of the group’s internal control at least annually

	2012	2013	2014
HSI	92%	100%	100%
HSCI	87%	96%	94%
HSCEI	80%	92%	88%

Source: BDO CG Review

Table 3 Percentage of companies claiming to have disclosed the process the board and committees applied when they reviewed the effectiveness of the internal control system

	2012	2013	2014
HSI	67%	84%	81%
HSCI	52%	67%	58%
HSCEI	50%	62%	60%

Source: BDO CG Review

Patrick Rozario added, "The review remains ambiguous when no real insight is entailed. Perhaps if the proposed revised guidance is finalised by the regulator, companies would be more motivated to make the depth and scope of such reviews much clearer."

The number of companies who made detailed disclosure on their sustainability practice has declined by 9%, 11% and 25% in HSI, HSCI and HSCEI companies respectively (Table 4). Corporate Social Responsibility (CSR) is increasingly an important element for businesses and the society at large. The CSR performance of Hong Kong companies is behind international standard.

Table 4 Percentage of companies claiming to have established dedicated structures and processes to direct and monitor the company's wider social environment and ethical performance, and has reported that to the board regularly

	2012	2013	2014
HSI	73%	90%	81%
HSCI	47%	66%	55%
HSCEI	60%	74%	49%

Source: BDO CG Review

Patrick Rozario commented, "The dynamic business environment continues to prompt companies to keep up with governance practice and guidance. Enhancing CSR strategies could help companies to boost investors' confidence and attract a diverse base of international investors."

"Companies may see CSR as unnecessary expenditure which does not generate sufficient contribution to justify its costs; however, they should understand the benefits brought by CSR cannot be achieved overnight. With competition from nearby cities, Hong Kong companies should strive to keep up with international standard in order to maintain its competitive advantage," Patrick Rozario concluded.

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Note to editors

About BDO Corporate Governance Review 2014

The BDO Corporate Governance Review 2014 is an extensive annual analysis conducted by BDO of the corporate governance practices of a total of 238 Hang Seng Composite Index (HSCI) companies. This is the ninth 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.

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