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GLOBAL YEAR-END RESULTS REFLECT BDO'S GROWTH

The total fee income for all BDO Member Firms amounted to €4.064 billion/ US\$5.672 billion for the year ended 30 September 2011. This was up by 4.41% in euro terms and by 7.36% when measured in US dollars on the previous year's figures.

BDO's revenues in the Asia/Pacific region continued to grow, showing an increase of 21%. This was driven by the benefits of an effective merger in Hong Kong.

The percentages contributed by fees for various service lines across the BDO network remained similar to previous years, although there was a slight increase in audit and accounting services, which comprised more than 61% of total fee income. Tax and advisory services remained steady at just around 19% and 20% of total fee income, respectively.

As of 30 September 2011, BDO provided services in 135 countries – up from 119 in 2010. There were corresponding increases in the numbers of BDO's partners and staff members, as well as the number of BDO offices. These rose to 48,767 people and 1,118 offices.

CEO Martin van Roekel of BDO International Limited commented that he was pleased to see tangible growth throughout the network during the year. "Client service is the foundation we've built our global business on; and continuously developing and implementing exceptional service delivery is the key thrust of BDO's business strategy."

Albert Au, Chairman and Chief Executive of BDO Limited in Hong Kong, said: "These positive results across the board are testament to our commitment to operate as a seamless, integrated network. Our member firms are experts in the countries in which they operate, while our shared global methodologies and rigorous quality assurance ensure our clients experience the same service excellence worldwide".

"Our worldwide reputation for exceptional service delivered by exceptional people is rooted in the strong relationships we build with our clients. We fully expect both our network performance and our network presence to grow even stronger in the years to come."

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DEVELOPMENT IN SUSTAINABILITY REPORTING

Corporate social responsibility (CSR) – the idea that companies should act not only in the best interests of their owners, but also those of other stakeholders in society – has been around since the middle of the last century. Since then, it has expanded to include concerns about the environment and sustainability, and its importance has increased among companies and their stakeholders. For example, 43% of the companies that constitute the Hang Seng Composite Index disclosed their CSR activities in 2011, even though they are not required to do so by listing rules or regulations. That compares with only 2% as recently as 2006. While this trend is encouraging, there is still much room for development regarding the reporting of such activities.

The process of sustainability reporting has not been without its challenges for those companies that have embarked on it, or stakeholders who wish to assess them. Firstly, unlike financial reporting, there are no regulations, standards or generally accepted practices for sustainability reporting. If you take a quick glance at just a handful of sustainability reports, you will notice wide variations in their length, format and content, which may include environmental, social and philanthropic activities, or some combination thereof. The lack of standardised information, both quantitative and qualitative, makes it difficult to compare companies with one another, or even to compare the same company's performance from one reporting period to the next.

Second, companies sometimes struggle to convey the value of their CSR activities to their investors, potential investors and stakeholders. Without proper recognition by stakeholders and valuation by investors, it may be difficult for companies to justify the efforts and costs associated with those activities, because they do not create a competitive advantage over rivals who do not operate sustainably. Finally, public listed companies are required to have their financial reports audited by external auditors. However, there is no requirement to provide assurance about nonfinancial information, such as sustainability metrics. As a result, readers may think that sustainability reports have more to do with public relations than with objective information. Yet, despite the challenges, real progress has been made in recent years to define and standardise sustainability reporting.

Various organisations have begun the push for the development and promotion of sustainability reporting standards. For example, in the UK, Prince Charles has initiated the Prince's Accounting for Sustainability Project, whose primary mission is to work with various organisations to develop practical guidance and tools for embedding sustainability into decision-making and reporting processes.

Prominent UK public and private organisations have volunteered to adopt the Connected Reporting Framework that is being developed under the project. An even more widely adopted guideline is the Global Reporting Initiative (GRI) Sustainability Reporting Framework G3 Guidelines. The GRI is a large multi-stakeholder network of thousands of experts in dozens of countries worldwide who have participated in working groups to develop the Reporting Framework.



The Reporting Framework sets out principles and performance indicators that organisations can use to measure and report their economic, environmental, and social performance. In 2011, more than 3,000 organisations around the world, including over 700 in Asia, issued reports using the GRI framework. Besides these two initiatives, many others have got underway, independently and concurrently. It is a positive indication that people and organisations around the world believe such a need exists. The initiatives also clearly indicate that sustainability reporting is in its growth phase. So what should it look like when it matures?

Companies are currently publishing voluntary CSR reports either as a sub-section of or a supplement to their annual reports. But in most cases, there is very little linkage between the financial and nonfinancial information in these reports. In addition, the reporting of its financial performance may not accurately reflect a company's long-term value and sustainability. That is particularly true when public listed companies are under pressure to meet short-term financial targets. The direction of sustainability reporting initiatives today indicates that the ultimate goal is to integrate financial and non-financial reporting into a single comprehensive report that presents the current state of the company and its financial, environmental, and social performance.

Although we still have a long way to go, it is clear such an integrated reporting approach should have certain qualities. First, reporting standards should be established and regulated, like existing financial reporting standards, so

that apples-to-apples comparisons can be made between companies. Second, financial and nonfinancial metrics should be linked. Companies should be able to convey the financial impact, both positive and negative, of their CSR activities. How are the costs of externalities – such as waste generation or carbon emissions – reflected in the report? How are the benefits of sustainable practices – such as the adoption of best-practice labour standards or exclusive use of suppliers with strong sustainability practices – reflected in the report? The report should allow a company's stakeholders to assess its performance from a holistic viewpoint.

Lastly, some form of assurance about the sustainability of corporate activities and disclosures should be performed. While a selected number of companies already voluntarily obtain some level of assurance concerning their CSR reports, this practice needs to be more widely adopted and assurance standards need to be defined better. That would increase the confidence of stakeholders about the information presented to them, and allow them to make informed decisions accordingly.

The idea of integrated sustainability reporting is not without its detractors. Arguments against it include the additional cost of preparation, the complexity and subjectivity of presenting nonfinancial information, and even scepticism about the value of such a report for stakeholders. While it is true that a new reporting framework would not by itself automatically make companies more sustainable, it would create a positive feedback loop that moves them towards it. A new reporting framework would guide companies more formally when they plan, manage, and monitor their CSR activities. It would also allow them to communicate the results of their efforts more clearly to their stakeholders, who would then recognise and reward such efforts. Amidst the increasingly complex global economy and socio-political environment, potential changes to our climate, and a noticeable increase in educated and socially conscious investors and consumers, the push for integrated sustainability reporting seems to be gaining momentum.

In December 2011, the Hong Kong Stock Exchange has issued a consultation paper on Environmental, Social and Governance Reporting Guide. This will set the scene of how sustainability reporting will be developed in Hong Kong and we shall follow the trend and development in this area.

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PUBLIC SERVICE AND PROFESSIONAL APPOINTMENTS

Albert Au appointed Chairman of Corruption Prevention Advisory Committee and member of Advisory Committee on Corruption

The Chief Executive of the Hong Kong Special Administrative Region (HKSAR) has appointed BDO Hong Kong Chairman & Chief Executive Albert Au as the Chairman of the Corruption Prevention Advisory Committee (CPAC) for a two-year term from 1 January 2012 to 31 December 2013. He was also appointed as a member of the Advisory Committee on Corruption (ACOC) for the same period.

CPAC advises the Commissioner of the Independent Commission Against Corruption (ICAC) on the priority of corruption prevention studies and examines all study reports; whereas ACOC is the principal advisory body overseeing all ICAC's activities.

Clement Chan elected as Vice President of Hong Kong Institute of Certified Public Accountants and Vice Chair of Asian-Oceanian Standard-Setters Group

BDO's Managing Director Clement Chan was recently elected as a Vice President of the Hong Kong Institute of Certified Public Accountants (HKICPA), and also the Vice Chair of the Asian-Oceanian Standard Setters Group (AOSSG) at its third annual meeting.

The AOSSG is a group of accounting standard setters in the Asian-Oceanian region. It was established in 2009 to leverage knowledge about globalising financial reporting standards and to share experience on their implementation. For more details, please visit www.aossg.org

Johnson Kong's recent appointments

BDO Managing Director Johnson Kong has been appointed as a member of Advisory Group on Modernisation of Corporate Insolvency Law of HKSAR Financial Services and The Treasury Bureau.

In addition, Johnson has been reappointed as a member of the Appeal Board Panel (Town Planning) of the Development Bureau for a term of two years from 19 December 2011 to 18 December 2013. A notification to this effect was published in the HKSAR Government Gazette on 16 December 2011. He was also reappointed as a member of Advisory Board on Accountancy of Hong Kong Lingnan University for a two-year term from 2012.

BDO'S GLOBAL NETWORK DEVELOPMENT AT A GLANCE



1. New member firm - BDO Greece

BDO has appointed a new member firm in Greece, effective from 9 June 2011. The firm is expected to achieve a turnover of approximately €6 million during the coming year. Announcing the news, BDO's CEO Martin van Roekel said: "BDO Firms across the world are committed to long-term relationships with their clients, and the new firm in Greece firmly upholds this principle."

2. New tax firm in Japan

Hongo Tsuji Tax Co. has joined BDO in Japan, effective from 1 January 2012. Since audit and tax firms are required to be independent of each other in Japan, the firm will practise under the name BDO Tax Co. after it merges with BDO's existing tax practice, and it will work alongside BDO Japan KK, the BDO Member Firm for audit in Japan. This will increase BDO's total headcount in Japan to around 1,000 and its revenues to JPY12 billion (€113 million) in 2012. Martin van Roekel commented that "Our presence in Japan has grown astonishingly quickly, and it is in line with the strategic growth plans of BDO in this region, as well as internationally."

3. BDO welcomes public debate of European commission audit proposals

BDO has consistently and constructively called for public companies requiring audit services to have a greater choice. It has therefore welcomed the proposals on audit reform – particularly those addressing the issue of market concentration and rebuilding trust in auditing – contained in the EU's Green Paper, **Audit Policy: Lessons from the Crisis**, which was published at the end of last year.

Noel Clehane, the network's global head of regulatory & public policy affairs, said: "We look forward to analysing the formal proposals adopted by the Commission and will issue BDO's response to them in due course. This is the start of a lengthy but very important process to ensure we can deliver real change for our industry. BDO will continue to participate fully and constructively in that process".

Martin van Roekel commented: "BDO continues to support an ambitious and forward-looking review of the structural aspects of the audit profession, which are vital to both enhancing the quality of audits and restoring trust in our profession."

For more details, please visit www.bdo.com.hk

PHOTOCOPIER – THE SILENT SPY RIGHT UNDER YOUR NOSE

At 2:30am on a starless Autumn morning, the business development team of a Korean property developer together with the company's chairman, lead architects, and heads of other business support units gathered in the boardroom of the corporate headquarter in Seoul. The lust to win this one of the largest metro-infrastructure projects in the country's history had driven the core members through countless sleepless nights. In this final eve, the preparation for the tender packs finally came to a close, which were due in a few hours. Exhausted, yet the spirit was never higher, expecting their impeccable designs, coupled with the innovative planet-friendly and energy-saving ideas would blast and blow any competitors out of the way. Yet no one seems to know that a lifeless betrayer had been watching all along.

Just a couple of miles down the street, a rival was also waiting for the informant for the last call, if any, to ensure that nothing would change until dawn.

A month later, when the project was awarded to its rival, the property developer was flabbergasted and furious. Perplexed as they might, the team began to suspect internal leaks. A fraud examiner was called on to deploy investigation. The investigator found that the project was a top classified one within the organisation throughout the tendering process and no staff outside the pitching team would know about it. Control mechanisms were in place and adequate. Everyone in the team

also seemed clean, especially during the days approaching the submission deadline when no one in the room was allowed to carry mobile phones, check emails, logon Facebook, or make any kind of contacts with the outside world.

The investigator then turned his focus to the possibility of external intrusion, which led to the discovery of abnormal data transmission originated from a number of photocopiers inside the office. It was later confirmed that the machines had been compromised that they would automatically transmit every document passing through them (ie fax, scan, printing and photocopy) to the rival by emails.

Industry know-hows, patent designs, price-sensitive financial information, secret formula, and privileged information, etc are critical to the success of a business. If these information leaks out to the public prematurely or falls into the hand of the competitors, the results can be disastrous. Unfortunately, sometimes it can happen easily right under your nose. If you think the Korean property developer is only an incidental fraud victim involving photocopier, think again!

Undeleted images in memory

It is a well-known fact that a computer contains a hard disk drive (HDD). But in fact many corporate photocopiers also have HDD installed. These HDDs are capable of capturing the images of every document that passes through the memory of the copiers. Depending

on configurations, the images may reside in the HDD far longer than anyone wishes, even after the photocopiers are replaced.

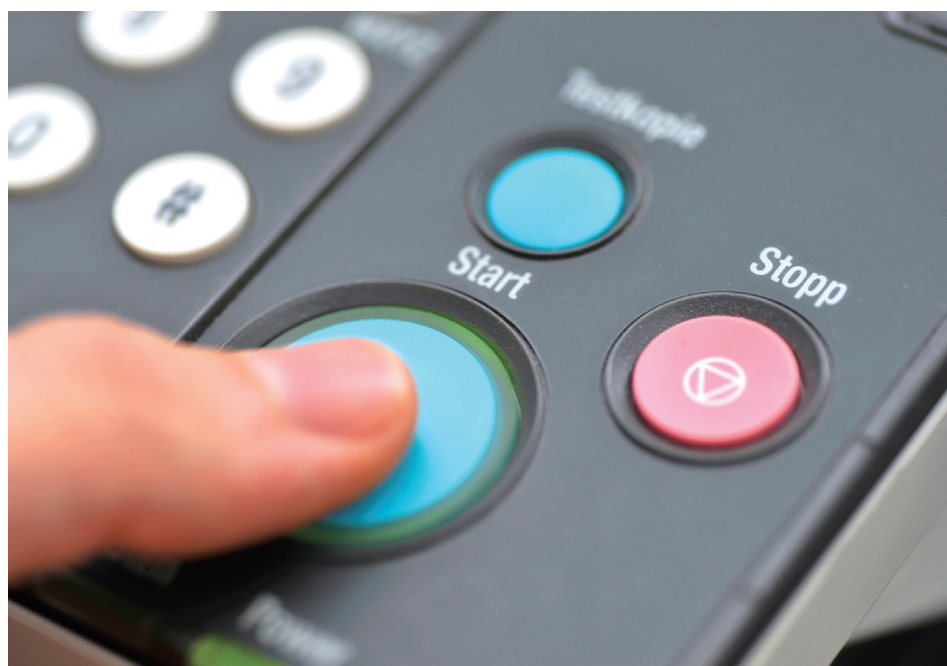
The retired photocopiers which often go to the second-hand market can end up refurbished and shipped to anywhere in the world. Users should be aware that it means millions of **undeleted** documents can fall into unknown hands. Some vendors intentionally collect used copiers for treasure hunting.

CBS News¹ featured a special report in February 2011 concerning leakages of confidential information via photocopiers. A reporter investigated and found that corporations often failed to take precautions to clean the HDDs of old copiers before removing them or trading them in for new ones. The old machines were usually collected and sold to resellers, then shipped to other cities or countries. The reporter purchased two of these old machines from a reseller for just a few hundred US dollars, then gave them to a computer specialist for examination to trace the contents therein. Surprisingly, and almost effortlessly, documents extracted from the two HDDs included, just to name a few, sensitive financial information and business information, cheque copies, communications with business partners, internal reports, memos, contracts, invoices, pricing information, confidential personal data such as medical record, home telephone number, address and date of birth, photos, and even criminal records, etc. The findings were stunning.

Internet threat

The situation is worse if the photocopier is connected to a computer network or the Internet. A photocopier connected to an unsecured network is exposed to the same risk as an unsecured network computer. Intruder may access it in a similar way as to a computer. For instance, a few worms which exploit vulnerabilities in these compromised machines or their backbone network will make them slaves to the attackers - commercial spies, business rivals, or occasional data kidnapers looking for juicy ransom.

In addition, many web-based search engines constantly "claw" the World Wide Web to grab whatever information they can find and index them. Therefore, a simple Google search can easily locate millions of URLs of those poorly configured photocopiers around the globe. It provides a roadmap to culprits to find and unearth the potential treasures hidden underneath the HDDs.



¹ <http://www.cbsnews.com/stories/2010/04/19/eveningnews/main6412439.shtml?tag=currentVideoInfo;videoMetaInfo>

One common tactic is to change the settings so that the compromised copiers will forward a copy of every task it handles to a malicious account by emails, just like what happened to the Korean property developer mentioned in the beginning of this article.

Loss and damage

From a corporation perspective, losing business opportunity is one thing, but it is only one of the many negative impacts that can result. For example, premature disclosure of business deals may disrupt the negotiation and breach the confidentiality clauses. It may also affect the share prices of public listed companies or alert rivals bringing about unpleasant complications. Competitors may buy your old corporate copiers and use the extracted data to get business advantages in terms of business plan and budget, design and improvement, price modeling, marketing initiatives, and customer information, etc.

For professional firms such as lawyers and accountants they have even higher standards on keeping client's confidentiality. Failure to maintain and uphold such standards may result in, for example, breaching of code of practice and/or lawyer-client privilege, exposing legal opinions and merits of legal action thus losing lawsuits, damaging reputation and credibility, bringing about legal claims against themselves, affecting the share prices of the clients or causing them to lose contracts, causing disciplinary sanctions, or all of the above. The list goes on and on.

From an individual perspective, leakage of personal data gives rise to identity theft and other security threats. Criminals may use personal identification documents to steal

money from personal bank accounts, or to obtain bank loans and credit cards. They may also be used to get government benefits and allowances. Fictitious bank accounts may be created for criminal purpose such as money laundering. Furthermore, when the information is fallen into the hand of the brilliant minds, it may be used for purposes beyond anyone's imagination, such as theft, assault, kidnap and murder; or for political purposes such as lobbying and manipulation of public opinion.

Precaution

To avoid the agonising and irreversible consequence of data leakage via copiers, a few simple but effective steps can be taken to mitigate the risk, as follows:

- have your IT department explain to your satisfaction what security measures are in place to prevent data leakage via photocopiers and whether the corporate firewall extends to cover them;
- use standalone/non-network photocopiers for copying, printing, and scanning confidential documents as much as possible to reduce the chance of data leakage;
- use strong encryption algorithm to protect the HDDs of the photocopiers from unauthorised access to the contents within;
- use passcode to protect all print-outs and copies, and leave no document unattended;
- if possible, disable the external email functions of the photocopiers and monitor data traffic to look for anomaly;
- ensure all data on the HDDs of photocopiers is **regularly** and **securely** wiped, especially before disposal;
- inspect all retiring photocopies to ensure that no document or recycling paper is left in the document feeder, scanner or the paper tray;

- contact the vendor to understand how the machines will be disposed of and whether malicious party will have a chance to get access to them;
- have the vendor signed a confidentiality agreement in respect of the data possibly resided in the old photocopiers being traded-in and refurbished; and
- engage information system and security expert to review your system to identify any loopholes, make recommendations, and monitor the implementation process.

Conclusion

Photocopier is a must-have tool in almost all business environments but one must be aware of the potential vulnerabilities. Data leakage from the compromised machine can have a material impact on a business as a going-concern. Fortunately, the risk can be significantly reduced if users take better care of them, and take the proper precautions such as those mentioned in the preceding sections. In this information age, one's garbage can be a goldmine to others, so let's take no chance.

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RECENT BDO PUBLICATIONS

HKFRS/IFRS Updates

1. Amendments to HKAS 1: Presentation of Financial Statements
2. HK (IFRIC) Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
3. New and Revised HKFRSs for 31 December 2011 Year-End Reporting
4. HKFRS/IFRS Available for Early Adoption for 31 December 2011 Year-Ends
5. IFRS 10 Consolidated Financial Statements – Transition Guidance
6. Mandatory effective date for HKFRS 9 and transition disclosures
7. Offsetting Financial Assets and Financial Liabilities

Tax publications

1. Hong Kong Budget Highlights
2. Transfer Pricing News – Issue 8
3. World Wide Tax News – Issue 28



TOP 10 ITEMS IN AN M&A AGREEMENT

China's overall merger and acquisition (M&A) activity in 2011 involved some 5,360 deals, according to a recent report. This figure well exceeds those of the previous years, as reflected in the chart below.

In an M&A, the buyer and seller usually enter into a share purchase agreement (SPA) to legalise and formalise the transaction. No two SPAs are the same, as transactions differ in size, nature, terms, industry and objective. Nonetheless, there are some common elements in all SPAs, and the top 10 of these should be as follows:

1. Definitions

Definitions generally form the first section of an SPA, and they are critical because they define the key terms that will be used throughout the agreement. Often, parties to the SPA need to have a clear understanding about many specific technical terms, and the definitions serve as the reference guide for them. In particular, precise and concise definitions help the parties arrive at a mutual understanding and agreement on the terms being used, which in turn helps preempt disputes.

2. Purchase price adjustment

Agreement on the purchase price is a pivotal issue in any transaction. Determining the final purchase price on completion, as opposed to the agreed enterprise value in the SPA, is a fundamental element of an SPA. The SPA should describe how the final purchase price will be calculated after the following typical adjustments to the agreed enterprise value:

- any cash and debt balances on completion date, assuming the transaction is on a cash-free debt-free basis;
- any surplus or shortfall in the agreed net asset value (NAV) compared to the closing NAV; and
- minority or non-controlling interests.

3. Payment schedule

The SPA must reflect an agreed-upon payment schedule, as payment is sometimes made in phases, based on certain milestones. These milestones could include a predetermined level of profits being achieved for the immediately following financial periods based on audited results.

4. Representations and warranties of the seller

Such representations and warranties should include:

- the authority and ownership of the seller;
- the accuracy, completeness and adequacy of information provided, including financial information that should be prepared in accordance with applicable legal and accounting standards;
- provision of full details on borrowings and guarantees, including confirmation that there are no (i) waivers or set off against any third party, (ii) written payment notices from creditors concerning sums due, (iii) enforcements of any security over the assets, (iv) guarantee, mortgage, pledge, lien assignment or other security agreements in respect of borrowings or other obligations, (v) arrangements for the repayment of grant, subsidy or financial assistance from any government department or other party, and (vi) change of control issues concerning financing agreements;
- assurances that there are no undisclosed or unusual material contracts or capital commitments, or contracts that are loss-making and cannot be terminated;
- assurances relating to customer or supplier dependence, licences, solvency, commissions and finder's fees, joint ventures and partnerships, agency agreements and restrictive covenants (if applicable), sufficiency of assets and non-standalone operations;

- confirmation of the adequacy of insurance cover and related premiums; and
- full and proper disclosure and ownership of all assets and liabilities, including plant and machinery, intellectual property, investments, trade debtors, inventories, trade liabilities, other provisions, employees and contingent liabilities/claims.

5. Representations and warranties of the buyer

- authority and availability of funding/financing for the transaction; and
- assurances concerning consents and approvals, and confirmation that there are no litigation issues.

6. Indemnification

The buyer will have to provide the relevant indemnifications to the seller for any breaches by the buyer.

7. Additional agreements

Any required consents by the buyer regarding the conduct of the business and operations prior to completion or closing should be specified and stipulated, including access to information.

8. Precedent conditions

All the conditions that should be fulfilled prior to closing will need to be specified, including relevant approvals and performance details.

9. Closing and completion accounts

This section should reflect items to be completed and delivered on the completion date. These may cover relevant receipts, resolutions, documents and completion accounts. The completion accounts will reflect the assets and liabilities on the date of completion, and they will be used to finalise the purchase price.

10. Termination, amendment and general conditions

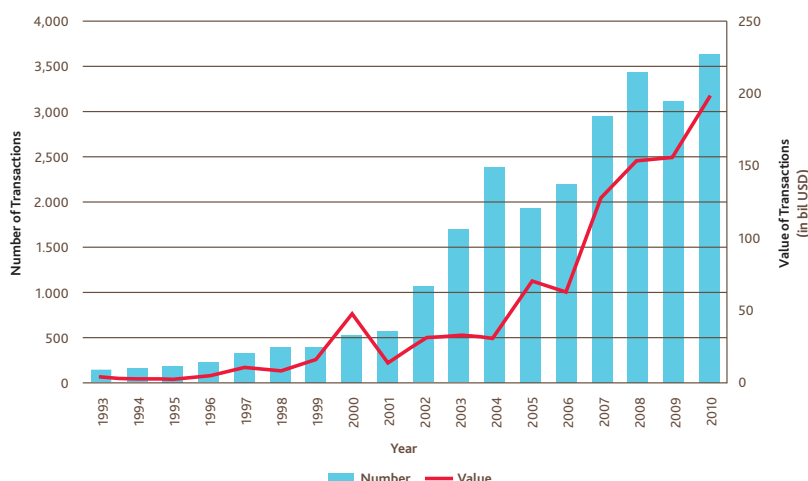
This section outlines conditions under which the agreement may be terminated prior to the completion of the transaction, as well as other general conditions, eg notices, confidentiality, dispute resolution, etc.

Note: The above is for discussion purposes only, and is not meant to be exhaustive. This article reflects the personal views of the author and does not represent legal advice. Readers should not rely on it and they should consult their own legal advisors in any M&A transaction.

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Announced Mergers & Acquisitions: China, 1993-2010



Source: <http://www.imaa-institute.org/statistics-mergers-acquisitions.htm>

AMENDMENT TO MAXIMUM LEVEL OF RELEVANT INCOME FOR MPF CONTRIBUTIONS

Following the recent amendment to the minimum level of relevant income for Mandatory Provident Fund (MPF) contributions, effective 1 November 2011, the Legislative Council has passed another amendment to the maximum level of relevant income for MPF mandatory contributions effective 1 June 2012. This is the very first change of relevant income ceiling

for MPF mandatory contributions since the implementation of MPF Schemes Ordinance on 1 December 2000.

With effect from 1 June 2012, the maximum level of relevant income will be increased from HK\$20,000 to HK\$25,000 a month. Also, the maximum level of relevant income for casual employees who are members of industry

schemes will be increased from HK\$650 to HK\$830 a day.

From the same date, monthly-paid regular employees and their employers and self-employed people will be required to make the MPF mandatory contributions show in [table 1](#).

Table 1

Monthly relevant income	Mandatory contribution amounts		
	Employer's contributions	Employee's contributions	Self-employed person's contributions
Less than HK\$6,500	Relevant income x 5%	Not required	Not required
HK\$6,500 – HK\$25,000	Relevant income x 5%	Relevant income x 5%	Relevant income x 5%
More than HK\$25,000	HK\$1,250	HK\$1,250	HK\$1,250 (per month) or HK\$15,000 (per year)

The amended maximum relevant income will apply to contribution periods that begin on or after 1 June 2012. If an MPF contribution period straddles two calendar months (eg from 5 May to 4 June 2012) MPF contributions based on the new level will take effect from the following contribution period (eg 5 June 2012).

The maximum amount of MPF contributions for casual employees under MPF industry

schemes who are paid on a daily or non-daily basis (eg those paid weekly or bi-weekly) will be calculated according to [table 2](#).

As the latest amendment to the maximum level of relevant income for MPF contributions will take effect from 1 June 2012, all employers are urged to make the necessary administrative arrangements now to ensure the new mandatory contributions are made

in accordance with the new levels of relevant income for MPF contributions from that date onwards.

Other amendments are currently being debated, such as giving members the right to choose their own MPF service providers. It is likely to be some time before any of these are put into place.

Table 2

Daily paid casual employees			Non-daily paid casual employees (eg those paid on a weekly or bi-weekly basis)		
Daily relevant income	Mandatory contribution amounts		Average daily relevant income	Mandatory contribution amounts	
	Employer's contributions	Employee's contributions		Employer's contributions	Employee's contributions
Less than HK\$250	HK\$7.50	Not required	Less than HK\$250	Relevant income 5%	Not required
HK\$250 or more but less than HK\$260	HK\$13	HK\$13	HK\$250 to HK\$830	Relevant income x 5%	Relevant income x 5%
HK\$260 or more but less than HK\$390	HK\$15	HK\$15			
HK\$390 or more but less than HK\$520	HK\$22.50	HK\$22.50			
HK\$520 to HK\$650	HK\$30	HK\$30			
HK\$650 or more but less than HK\$830	HK\$37.50	HK\$37.50	More than HK\$830	HK\$41.50 per day	HK\$41.50 per day
More than HK\$830	HK\$41.50	HK\$41.50			

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CORPORATE GOVERNANCE REVIEW 2011

BDO's latest Corporate Governance Review (CG Review) of 232 major Hong Kong listed companies that constitute the Hang Seng Composite Index (HSCI) is available. This is an extensive analysis of the disclosures that the companies made in their 2010/2011 annual reports.

The 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: Hang Seng Index (HSI) (from 100% in 2009 to 91% in 2011), HSCI (from 94% to 88%) and Hang Seng China Enterprises Index (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. In particular, only 15% of HSCI companies disclosed details of how the board reviewed their internal controls.

Another key finding of the 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.

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

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 2011

(74%) and HSCI (73%) companies. There was a 2% decline for HSCEI companies (90%) to achieve the recommended board balance. The Hong Kong Stock Exchange (HKEx) has upgraded this to a mandatory rule that requires all listed companies to comply with such regulation by 31 December 2012.

In terms of Corporate Social Responsibility (CSR), although HKEx did not specifically address this subject, it is encouraging to note 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.

Moreover, more recent reviews have noted an increasing number of companies appear to have grown complacent in their efforts to meet all of the improvement of the Code on Corporate

Governance Practices (the Code). This has been an unfortunate by-product of the choice in the Code allowing companies either to comply or explain when compliance is not achieved. Also, the Code itself did little to encourage change, as it had not been subject to any significant revisions. Although HKEx introduced some changes, their effects were limited, and they failed to motivate companies to make further improvements to corporate governance. With the revisions of the Code in 2012, we hope to see vitality in our corporate governance practices.

We undertake this effort every year to provide a barometer of the state of corporate governance in Hong Kong in order to give companies, investors, regulators and stakeholders insights into the latest trends in this area. The report has continued to evolve as a result of the lessons we have learnt, as well as the new practices that have emerged globally.

If you would like to receive a copy of the full report, please contact us at info@bdo.com.hk

HKICPA SPECIALIST DESIGNATION IN INSOLVENCY

In addition to the two BDO Directors who received the same designation last July, our director **Kenneth Yeo** and principals **Rio Lam** and **Wilfred Wu** were awarded the Specialist Designation in Insolvency by the Hong Kong Institute of Certified Public Accountants (HKICPA), effective 5 December 2011.

17 accountancy professionals were in the second batch to receive this accreditation, bringing the total to 49. BDO's five recipients account for 10% of them.



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