

Press release

To: Business/ Finance editors & reporters

HK listed companies to catch up with international counterparts in internal controls & corporate social responsibility

HONG KONG, 3 December 2006 – Internal control effectiveness review and corporate social responsibility are the two major corporate governance areas among listed companies for improvements in order to maintain Hong Kong's prominent reputation as an international financial centre, according to the First HSCI Corporate Governance Review 2006 conducted by the accounting firm Grant Thornton.

Almost a quarter of the Hang Seng Composite Index (HSCI) companies reported that they have complied with the annual internal control formal review requirement although it is not yet mandatory until their next annual report. However, the Review shows that limited disclosures of their internal controls systems were made by those complied.

Table 1: Percentage of companies claimed that an annual review on the effectiveness of the group's internal controls has been undertaken

Hong Kong			UK
Hang Seng Index companies	Hang Seng Composite Index companies	Hang Seng China Enterprise Index companies	FTSE350
61%	24%	11%	98%

Source: Grant Thornton's First HSCI Corporate Governance Review 2006

"As a matter of fact, the internal control review requirements found in the Code on Corporate Governance Practices not only cover financial reporting controls as required by the Sarbanes Oxley Act Section 404 that US listed companies must comply with, but must also include material operational and compliance controls as well as risk management systems. It is not an easy task for companies to undertake and will require strong commitment and a lot of resources. We encourage directors of listed companies to carefully check that their internal control reviews have not left out any areas suggested by the Code," said Patrick Rozario, Principal and Head of Business Risk Services at Grant Thornton.

"It's also interesting when we compare Hong Kong current performance to the UK where there is a 98% compliance status of the UK's FTSE350 according to a similar analysis done by Grant Thornton LLP in the UK. Many may debate that it's not correct to compare Hong Kong with the UK situation as the UK code requirement has been in operation for at least two years, though it still shows us that Hong Kong listed companies have to cover a lot of ground to catch up with the international standards," continued Patrick Rozario, "particularly where over 40% have not yet set up an internal audit function."

Corporate social responsibility is another corporate governance area identified as for improvement. The Review shows that many companies have added extensive disclosures on corporate social responsibility. However, few had adopted systematic processes and formal structures to manage corporate social responsibility as one of the key elements impacting the performance of the company. The UK is substantially ahead and this could be because of the FORGE guidance which is a UK framework to help companies in their corporate social responsibility.

Table 2: Percentage of companies disclose whether they have established dedicated corporate social responsibility structure?

Hong Kong			UK
Hang Seng Index companies	Hang Seng Composite Index companies	Hang Seng China Enterprise Index companies	FTSE350
11%	2%	0%	90%

Source: Grant Thornton's First HSCI Corporate Governance Review 2006

"It's evident that Hong Kong needs to place greater weighting on corporate social responsibility (CSR). Companies and especially their directors have the power to significantly influence our environment. Our vision is that they lead sustainable development initiatives that deliver to the needs of both existing and future generations. A formal CSR structure is essential to delivering such initiatives," commented Patrick Rozario.

"Grant Thornton, as specialist advisors, as well as the market are encouraging Hong Kong directors to strive for better corporate governance. Changing behaviour, as required by the new regulations of corporate governance, is usually considered a challenge. At least it seems Hong Kong has taken steps in the right direction with the results of our review in this first year showing that HSCI companies paid a reasonable level of attention to the overall disclosure requirements

and recommended best practices. Hopefully one day in the future the Hong Kong capital market can aspire to be the global role model in achieving good corporate governance performance" concluded Patrick Rozario.

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NOTES TO EDITORS

About Grant Thornton

Grant Thornton is one of the leading accounting, tax, and business advisory firms dedicated to serving the needs of growth companies. Grant Thornton in Hong Kong is a member of Grant Thornton International which has member firms in 112 countries in 519 offices. In Hong Kong and mainland China, Grant Thornton has offices in Hong Kong, Beijing, Shanghai, Guangzhou and Shenzhen, employing in excess of 600 people.

First HSCI Corporate Governance Review 2006

The First HSCI Corporate Governance Review 2006 was an extensive analysis conducted by Grant Thornton in Sept 2006 of the corporate governance practices of the Hang Seng Composite Index (HSCI) companies. 187 of the total 200 HSCI companies were analysed as the remaining 13 had not published their Corporate Governance Report at the time of the review. The review was carried out by answering 36 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 36-page report which can be obtained from Grant Thornton.

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