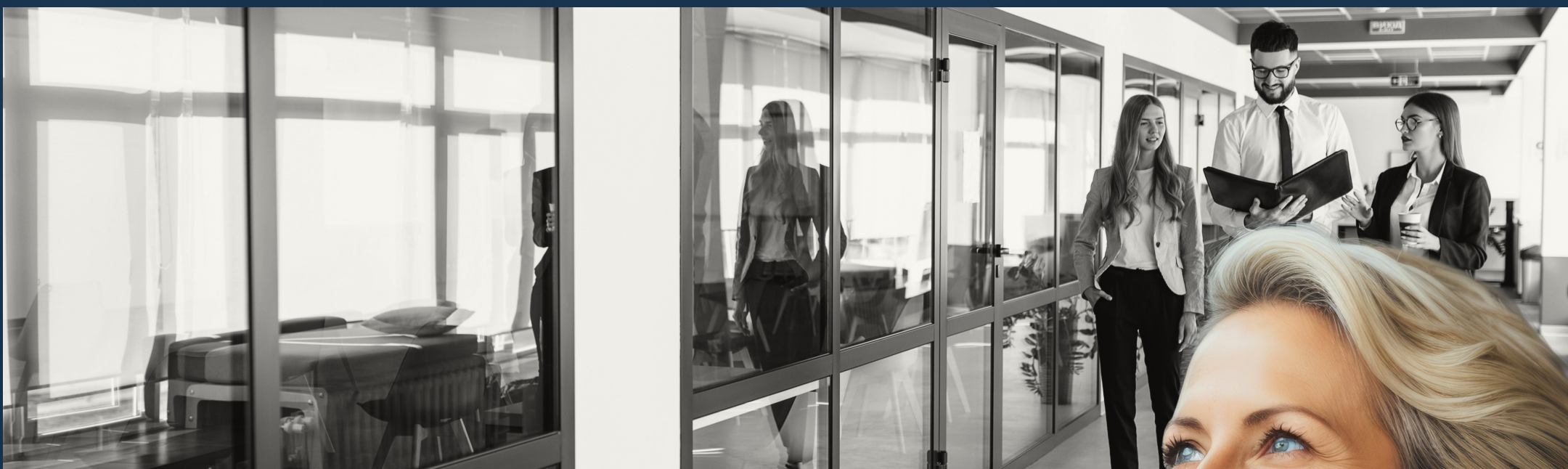


Internal Controls and Governance

Your Financial Success is backed by Solid
Corporate Governance



Tailored specifically for the Corporate Clients

KEY FEATURES

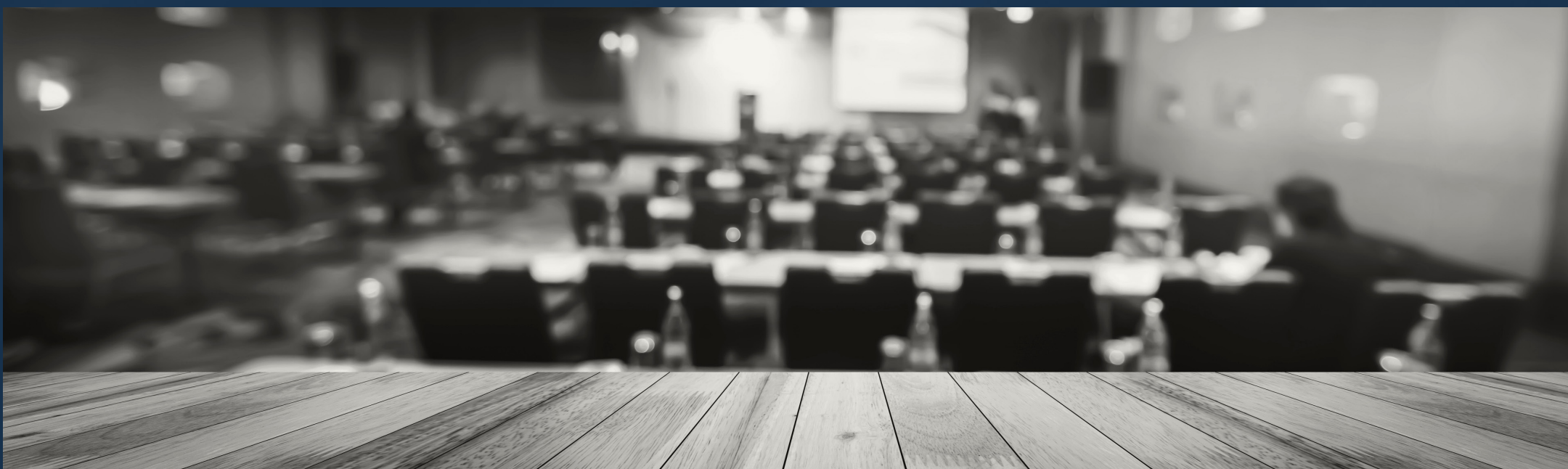
- Latest updates on Corporate Governance Code
- Annual Review of Risk Management and Internal Controls
- Review Scope: Key Reminders and Important points to Remember
- Key Components of Risk Management and Internal Control Systems
- Integrity, Ethical Culture, and Internal Controls: Beyond Compliance



Delivering Excellence: The Core of the Audit Profession!

Internal Controls and Governance

Enhancements to the Corporate Governance Code



Effectiveness of Risk Management and Internal Control Systems

On December 19, 2024, the Stock Exchange of Hong Kong Limited announced the consultation conclusions on enhancements to the Corporate Governance Code. These enhancements will apply to corporate governance reports and annual reports for financial years commencing on or after July 1, 2025, with certain provisions subject to transition arrangements.

One of the key enhancements requires issuers and their subsidiaries to review the effectiveness of their risk management and internal control systems at least annually and disclose details of the review, findings, and remedial actions. Listed entities with year-ends of December 31, March 31, and April 30 will reflect these changes in their 2026 reports unless transition arrangements apply. The review should cover the relevant financial reporting period and any significant issues up to the approval date of the annual report and financial statements. The Board is also encouraged to assess, before each interim report, any changes in internal controls during the interim period that have materially affected, or are likely to materially affect, the company and its subsidiaries.

Before confirming the Effectiveness of Risk Management and Internal Control Systems, the Board should have secured adequate information and assurances from management, internal stakeholders such as internal audit, the audit committee, the risk management committee, or external providers like auditors to determine that the risk management and internal control systems continue to be effective. After conducting a thorough and thoughtful inquiry, **the Board should exercise independent judgment to reach its own conclusion regarding the effectiveness of these systems, drawing upon all information and assurances received.**

Delivering Excellence: The Core of the Audit Profession!

Internal Controls and Governance

Annual Review of Risk Management and Internal Control Systems



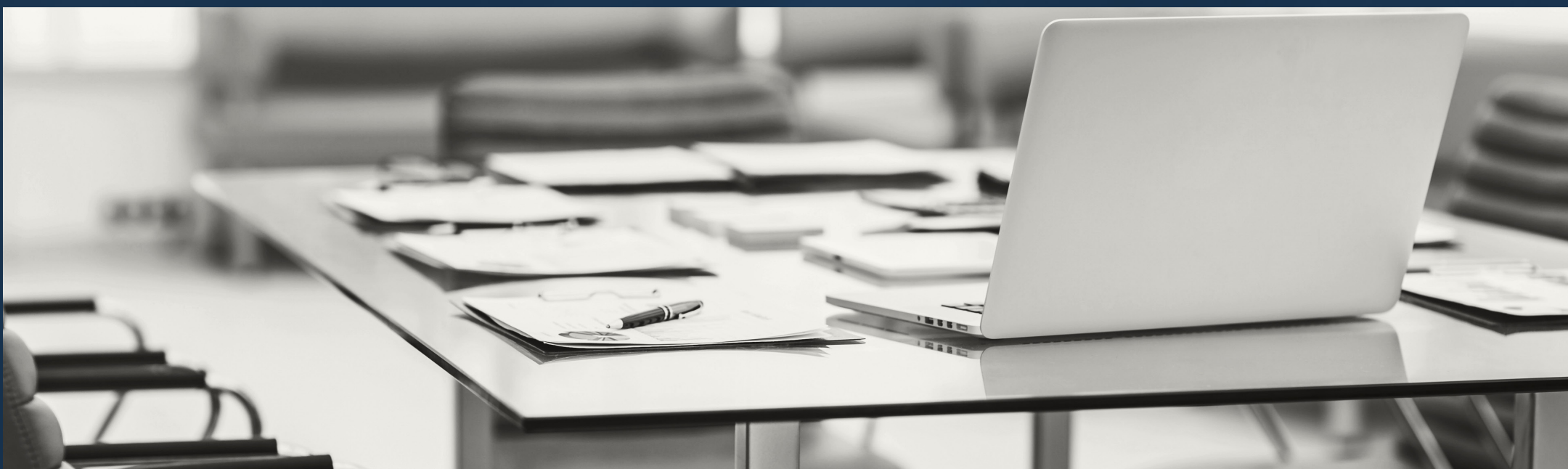
Key Points to Remember:

- The Board is ultimately responsible for reviewing internal control effectiveness, while management is tasked with designing, operating, and monitoring internal controls on an ongoing basis and providing the Board with assurance.
- The review scope includes all material controls: financial, operational, and compliance controls. Detail the review scope and findings—highlight any material control failures or weaknesses, unresolved control issues, and remediation actions taken.
- Describe key features of risk management and internal control. Explain how significant risks are identified, evaluated, and managed. Specify protocols for timely and accurate disclosure.
- Any significant changes in risk management, internal control systems, and risk assessment since the last review.
- Assess the scope and quality of management's ongoing monitoring of risks and internal control systems, and the frequency and depth of reporting monitoring outcomes to the Board or relevant committees.
- State the frequency and period covered by the review of risk management and internal control systems.
- Assess the adequacy of resources for designing, implementing, and monitoring the risk management and internal control systems.
- Information supports the Board's conclusion that the risk management and internal control systems are appropriate and effective.
- The issuer is expected to maintain an internal audit function.
- If an internal audit function is not in place, review the necessity for one on an annual basis.
- Assess the effectiveness of the processes relating to financial reporting and Listing Rule compliance.

Delivering Excellence: The Core of the Audit Profession!

Internal Controls and Governance

Key Components of Risk Management and Internal Control Systems



Key Reminders on Review Scope

- Corporate culture/ control environment - Review corporate culture throughout the organization. Consider commitment to integrity and ethics. Evaluate independent Board oversight of internal controls, organizational structure, human resources and accountability, and management's dedication to internal controls.
- Risk assessment - Assess if the organization sets clear objectives to identify, analyze, and prioritize risks. Review ongoing risk assessment and management processes. Include how risks—regulatory, operational, or fraud—are handled, and their impact on internal controls.
- Control activities - Review the effectiveness of internal control procedures in place across all business areas within the organization to manage and mitigate risks, including policies, procedures, and controls over IT systems.
- Information and communication - Assess how well information supports internal control systems. Consider policies and procedures for effective internal and external communication, including data protection levels.
- Monitoring - Review the monitoring functions, the policies and procedures for ongoing monitoring of internal control effectiveness, and the channels for reporting.

Delivering Excellence: The Core of the Audit Profession!

Internal Controls and Governance

Integrity, Ethical Culture, and Internal Controls: Beyond Compliance



Corporate Culture and Internal Controls

- Under the Corporate Governance Code, issuers are expected to establish comprehensive whistleblowing and anti-corruption policies as a demonstration of their commitment to integrity, corruption prevention, and sound governance. The Hong Kong Independent Commission Against Corruption (ICAC) is currently developing an Integrity Compliance Management System (ICMS) and accompanying guidance, which is scheduled for publication in 2026.
- Internal controls serve as the backbone of efficient and effective operations. They help organizations manage risks, achieve objectives, and ensure high-quality reporting and regulatory compliance.
- Internal controls help maximize opportunities while minimizing potential losses from unforeseen events, safeguarding shareholders' investments and the entity's assets. It's about more than compliance; it's about cultivating the right tone at the top.
- Even robust internal controls cannot eliminate all risks, including those arising from human error, judgment lapses, collusion, management override, or unexpected events. The Board should clarify that a sound internal control system provides reasonable, but not absolute, assurance.
- Internal controls should be embedded in both operations and culture to enable prompt responses to emerging risks. Procedures must ensure immediate reporting of significant control weaknesses and corrective actions to management.

Delivering Excellence: The Core of the Audit Profession!

Sources

- The Consultation Conclusions on Review of Corporate Governance Code and Related Listing Rules, published by the Stock Exchange of Hong Kong Limited (HKEX), can be found on the HKEX's website(www.hkex.com.hk).
- The Corporate Governance Guide for Boards and Directors, published by the Stock Exchange of Hong Kong Limited (HKEX), can be found on the HKEX's website(www.hkex.com.hk).
- Internal Control and Risk Management - A Basic Framework, published by the Hong Kong Institute of Certified Public Accountants (HKICPA), can be found on the HKICPA's website (www.hkicpa.org.hk).
- Corporate Governance Code, Main Board and GEM Listing Rules can be found on the HKEX's website (www.hkex.com.hk)



Delivering Excellence: The Core of the Audit Profession!

Level 19, Two Chinachem Central
No. 26 Des Voeux Road Central, Hong Kong

www.sincetex.com

SinceTex | Your Global Partner in Compliance

At SinceTex, we understand that navigating the intricate landscape of financial and corporate governance can often feel overwhelming. Our team of top-tier professionals brings a wealth of expertise gained from leading global accounting and professional firms. We are committed to promoting an ethical culture, ensuring robust corporate governance, and maintaining regulatory compliance in a complicated financial world with confidence and clarity.

At SinceTex, we prioritize Precision, Trust, and Transparency. Your Financial Success, backed by solid corporate governance, starts with us! Let's embark on this journey towards excellence!

© 2025 SinceTex Limited.
All Rights Reserved.

Produced by SinceTex Information and Communication Team. This material has been prepared for general informational purposes only and should not be considered as a substitute for professional advice in accounting, tax, legal or other areas. Please refer to your advisors for specific advice and guidance. No representation, warranties or undertakings are given as to the accuracy or completeness of the information in this communication. SinceTex accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.



Delivering Excellence: The Core of the Audit Profession!

Level 19, Two Chinachem Central
No. 26 Des Voeux Road Central, Hong Kong

www.sincetex.com