

Economic crime: people, culture & controls

The 4th biennial Global Economic Crime Survey
Hong Kong



Economic Crime in Hong Kong – an upward trend?

We are delighted to present PricewaterhouseCoopers’ Economic Crime Survey for 2007.

The incidences of economic crime reported by our respondents in Hong Kong have increased by 4% since our last survey in 2005. This may be due, in part, to a greater vigilance and awareness. However, the boom in Hong Kong’s economy may have created more opportunities for fraudsters and risks may also have increased in recent years due to increased business in regional emerging markets.

This year’s survey was based on the responses of 100 companies in Hong Kong, of which 95% are listed in Hong Kong and/or on an overseas stock exchange. The companies were selected randomly, from a wide variety of industries, as noted below.

Economic crime

26% of all Hong Kong respondents reported that they have been subject to economic crime over the past two years. This figure is much lower than both the global average of 43% and the Asia Pacific average of 39%. However, as noted above, the trend in Hong Kong is upward and this is contrary to what is being experienced elsewhere in the world.

Hong Kong’s economy has been growing in recent years which may offer more opportunities for crime. This, coupled with the rapid economic growth of China and continued expansion of Hong Kong companies into China and other regional markets during the past few years, may have contributed to the increasing trend.

Of the reported incidents, 31% involved an external party located in a foreign country. These respondents indicated there were incidences where the external parties were located in China (100%), other Asia Pacific (excluding India and

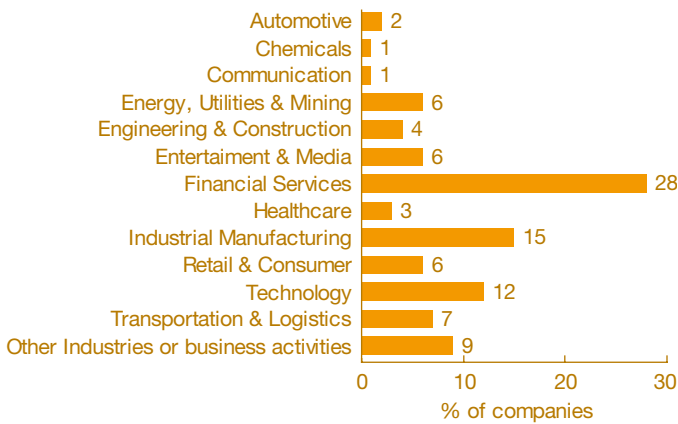
China) (57%) and Africa (14%). Again, this suggests that the increasing business activities in China may expose Hong Kong organisations to higher risk. It is therefore critical for companies to have effective controls in place to prevent fraud.

Despite the increase in reported economic crime, our survey revealed that Hong Kong companies continue to be complacent about the future threat of fraud. Only 4% believe that it is likely or very likely that their organisations would be at risk of fraud over the next two years. This is considerably lower than the regional and global figures of 11%.

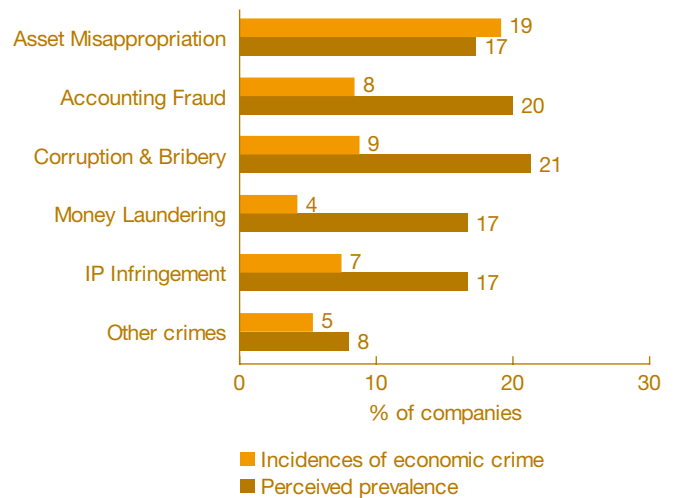
Perceived risks

Respondents consider the threats of corruption and bribery (21%), accounting fraud (20%) and asset misappropriation (17%) as the most prevalent forms of economic crime in Hong Kong, consistent with the regional and global results.

2.1 Respondents drawn from the following industry sectors – Hong Kong



2.2 Perceived prevalence versus companies reporting incidences of economic crime – Hong Kong



Detection and management of economic crime

The most common measures adopted by Hong Kong organisations for the discovery and prevention of crime include internal controls (89%), external audits (83%), audit committee (83%), ethical guidelines (72%) and compliance programs or manuals (67%).

However, respondents consider that internal controls (32%), internal audits (27%), external audits (22%), change of personnel duties (22%) and fraud risk manuals (21%) are the most effective ways for combating fraud.

50% of companies reported dealing with economic crime by strengthening existing control measures or implementing new control measures, while 23% indicated that they had no specific actions planned to deal with economic crime.

Consequences of economic crime

The average direct financial losses suffered as a result of economic crime by Hong Kong respondents was reported to be approximately US\$618,000. Respondents estimated that on average an additional US\$60,000 was spent on managing these cases, which includes legal costs, investigation costs and stakeholder management. However 14% of respondents reported costs of managing the incidences of economic crime exceeding US\$250,000.

Only 38% of Hong Kong companies surveyed take out insurance to cover economic crime losses. The figure is consistent with worldwide results (39%), but lower than in the Asia Pacific region (45%).

The indirect costs of economic crime are more difficult to quantify but might include intangible damage to brand, staff morale, standing with regulators and share price. Of the companies that suffered economic crime, 60% reported that they had suffered collateral damage of these types with 4% indicating the damage was significant.

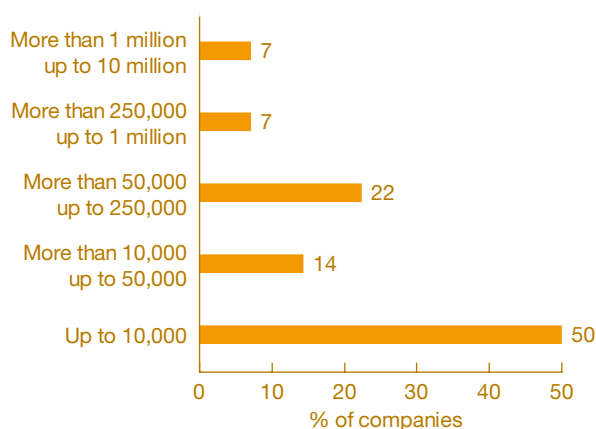
Doing business in China

Experience of Hong Kong companies

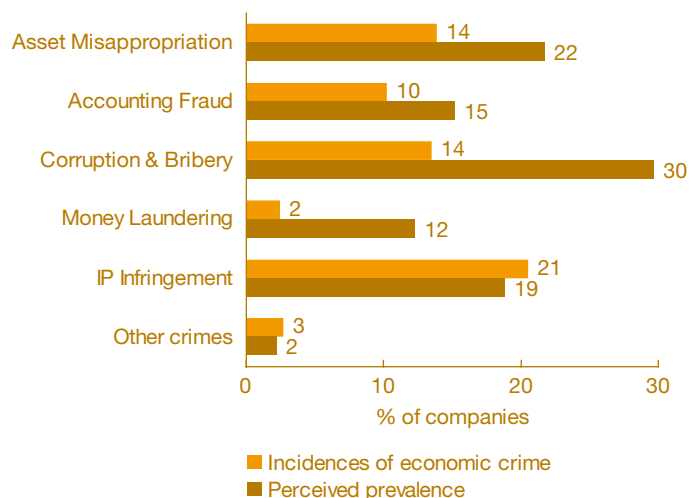
46% of Hong Kong respondents indicated that they had responsibility for business activities in China. As one might expect, this is much higher than the Asia Pacific (16%) and global (10%) figures.

29% of these companies reported having been the subject of economic crime over the past two years in China, while approximately 11% consider that it was likely or very likely that their organisations would be subjected to economic crime over the next two years in China. Both figures are higher than the Hong Kong domestic results. Companies operating in the China market would appear to be more concerned about economic crime than those operating only within Hong Kong.

2.3 Direct financial losses suffered from economic crime over the past 2 years – Hong Kong (Amount in US\$)



2.4 Perceived prevalence versus companies reporting incidences of economic crime – China



Corruption and bribery

Hong Kong respondents considered that corruption and bribery (30%), asset misappropriation (22%) and IP infringement (19%) are the most prevalent economic crimes in China.

The perceived levels of corruption are significantly higher than the actual incidences reported of 14%. However 24% of respondents reported having experienced losing an opportunity to a competitor whom they believe may have paid a bribe. Perceptions of corruption clearly remain a serious concern for Hong Kong companies operating in China.

Cost of economic crime in China

The average direct financial losses reported by respondents in China were very similar to those in Hong Kong. However, the maximum cost of individual incidents appears to have been higher with 38% of respondents reporting losses in the US\$1 million to US\$10 million range. The average cost of managing economic crime

cases in China was also four times that experienced in Hong Kong.

Despite the perceptions of heightened risk in China, only 52% of Hong Kong respondents with China responsibility reported having introduced new control measures or strengthened existing control measures in China.

Respondents reported that certain controls are used more extensively in China. These include consultation on fraud prevention (33%), a company's own specific fraud training (25%), change of personnel/duties (25%), information from publicly available sources (24%) and external audits (23%).

Investment in China

Of the 34% respondents who have responsibility for investment decisions in China, 65% consider that economic crime is an important or very important consideration in the overall decision making process. The economic crime concerns include integrity (94%), staff security (88%) and corruption (88%).

Contact

- **John Donker – Hong Kong**
 Tel: +852 2289 2411
 e-mail: john.donker@hk.pwc.com
- **Jean Roux – Shanghai**
 Tel: +86 (21) 6123 3988
 e-mail: jean.roux@cn.pwc.com
- **Brian Cheung – Beijing**
 Tel: +86 (10) 6533 2228
 e-mail: brian.cheung@hk.pwc.com

For more information, please go to:
pwc.com/crimesurvey

2.5 Direct financial losses suffered from economic crime over the past 2 years - China (Amount in US\$)

