



Practical Tips to Effective Risk Management & Internal Control Systems

This document has three sections:

- A. [Key questions](#) to consider when making decisions (1) for general corporate transactions; and (2) in the context of money lending business.
- B. [General internal controls and governance practices](#) in relation to (1) transfer and use of funds; (2) delegation of duties; and (3) documentation and record retention.
- C. [Quick reminders](#) to the board, management and audit committee of issuers.

This document is intended to assist the board, management and the audit committee of an issuer to discharge their responsibilities and serves as a quick reference to some of the key issues that need to be considered when issuers develop and implement their risk management and internal control (**RMIC**) systems.

Pursuant to the Corporate Governance Code (**CG Code**):¹

- the **board of directors (Board)** is responsible for setting an issuer's risk appetite, ensuring that adequate and effective RMIC systems are established and maintained, and conducting a review of the effectiveness of such systems at least annually;
- the **management** is responsible for designing, implementing and monitoring the RMIC systems; and
- the **audit committee (AC)** is responsible for overseeing the RMIC systems, reviewing their effectiveness, and ensuring the management has performed its duty to establish effective RMIC systems.

This document should be read in conjunction with the Listing Rules (including the [CG Code](#) in Appendix C1 thereto) and other guidance from the Exchange (including the [Corporate Governance Guide for Boards and Directors](#), [Listing Regulation and Enforcement Newsletters](#) and other [publications](#) relating to RMIC). Seek professional advice when necessary or in doubt.

Importantly, a robust RMIC framework is a core element of sound governance to ensure that investors have, and can maintain, confidence in both the issuer and the market.

¹ See paragraph H of the Mandatory Disclosure Requirements in Part 1 of the CG Code and Principle D.2 of the Principles of Good Corporate Governance in Part 2 of the CG Code.

A. Key questions to consider for specific business activities

Certain actions of the Board and management involve particular operational, financial and compliance risks, including **transactional approval** or **the operation of a money lending business**. It is important that the questions below are being considered and covered under the RMIC systems before making such business decisions.

General corporate transactions (e.g. acquisition, disposal, financial assistance)

<p>Is the transaction in the issuer's best interests?</p>	<ul style="list-style-type: none">• Parties involved: from whom did the opportunity originate and who are the parties involved (including counterparty, ultimate beneficial owner, etc.)?• Relationship: are any parties related to the issuer / its connected persons?• Overall cost and benefit of the transaction:<ul style="list-style-type: none">○ Commercial rationale – what is the strategic purpose / expected outcome?○ Financial impact – have financial implications been sufficiently considered (e.g. earnings, profitability, cash flow, asset value, gearing, liquidity, capital structure, hidden costs, contingent liabilities and future commitments)?○ Transactional risks – are there risks that could impact the transaction, e.g. counterparty's creditworthiness / track record; execution risks (e.g. conditions precedent, long-stop dates, other burdensome terms, enforceability)?• Due diligence:<ul style="list-style-type: none">○ Scope – is it wide enough to cover financial, legal, operational and human resources aspects (where applicable), and tailored to the transaction nature / counterparties?○ Verification of accuracy – has relevant information been sufficiently verified?• Independent judgment: did the Board and management apply sufficient scepticism when reviewing the purpose, terms, and benefits of the transaction, taking into account market or industry norms, if any?
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<p>Are the terms of the transaction fair and reasonable?</p>	<ul style="list-style-type: none"> • Consideration – what is the basis for the consideration (including its composition); is a valuation warranted (if so, has it been conducted and considered; who is the valuer and are the methodology and assumptions reasonable)? • Payment – are there adequate safeguards against risk of non-performance? • Other terms – are the common clauses (e.g. conditions precedent, prepayment, representations & warranties, indemnity clauses, liability limitations, negative covenants, information right, termination, remedies for breach) at arm’s length / in line with market practice; is any deviation justified and documented? • Is the view on the fairness and reasonableness of the transaction terms formed after due and careful enquiry?
<p>Have internal controls / relevant regulations been followed?</p>	<ul style="list-style-type: none"> • Board / shareholder approval – have the necessary approvals been obtained? • Information and record keeping – has the Board been given sufficient, accurate and up-to-date information for consideration and an adequate opportunity for deliberation; has the decision-making / approval process been appropriately documented? • Conflicts of interest – have all directors declared interests (if any) in the proposed transaction and have possible conflicts (actual and potential) been considered / avoided? • Compliance – has compliance with applicable laws, rules and regulations (including the Listing Rules) been considered and assessed prior to transactional approval? • Professional advice – is there a need for independent professional advice (e.g. valuer, legal counsel, compliance and/or financial adviser)?

Money lending business

<p>Is the money lending business operationally ready?</p>	<ul style="list-style-type: none"> • Set up – have relevant licences been obtained / renewed; does the intended business comply with all applicable legal / regulatory requirements? • RMIC systems – have specific policies and procedures been implemented and reviewed? <i>Note:</i> a general RMIC policy which is not specific to the risks of a money lending operation is insufficient. • Monitoring – has supervision of the money lending business been delegated to designated staff with sufficient experience and capability; have approval thresholds (including for the Board) and maximum credit risk exposure been properly set? • Timing – ensure the money lending business is operationally ready before its commencement.
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<p>Is pre-loan due diligence robust?</p>	<ul style="list-style-type: none">• Know-your-client – are relevant procedures in place to conduct comprehensive risk and credit assessment, anti-money laundering checks and background searches against borrowers, any third-party nominees and guarantors; are procedures adequate to ascertain (among other things) the identity of the borrower, details of the borrower’s assets (nature, value and location), intended use for loans sought?• Terms of loan – has the fairness and reasonableness of the loan terms been independently assessed (including monetary amount, loan period, renewal, adequacy and enforceability of collateral / guarantees obtained)?• Red flags – have any red flags been identified (e.g. exceptionally large or unsecured loans, common nominees for multiple borrowers, repeated repayment delays, or unusual transaction patterns) and addressed?• RMIC / credit policy compliance – have internal requirements (including conflicts management & transactional approval) been complied with?
<p>Is post-loan monitoring effective?</p>	<ul style="list-style-type: none">• Ongoing loan monitoring – is the status of the loans being reviewed regularly and proactively (including repayment & interest payment status, recoverability of outstanding repayments, borrower’s fulfilment of loan conditions and sufficiency and enforceability of security or collaterals); has the overall loan portfolio been reviewed holistically to avoid concentration risk?• Risk mitigation actions – are procedures in place and implemented to follow up on late repayment and obtain additional security; or in case of default, to enforce security / guarantees, and/or take legal action?• Renewal assessment – are applications for loan renewal / extension independently assessed (including conduct up-to-date due diligence, risk and credit assessment); are red flags (e.g. repeated extensions) monitored?• Escalation – are there processes in place to identify and escalate material issues or red flags to the Board / management; is there a procedure on when to involve professional advisers (e.g. auditors for the classification of non-performing loans and impairment provisions; legal advisors for advice on recovery and enforcement steps)?



B. General internal controls and governance practices

An issuer’s RMIC systems are expected to adequately and effectively cover the following areas.

Transfer and use of funds

Is the approval hierarchy clear?	<ul style="list-style-type: none"> • Set clear approval hierarchy that is proportionate to the nature, complexity and materiality of the subject matter, e.g. monetary thresholds for different levels of authorisation, and separate authorisation methods such as dual signatures for cheques or multiple approvers for transfers.
How to safeguard funds?	<ul style="list-style-type: none"> • Implement appropriate cash and treasury controls, for example: <ul style="list-style-type: none"> ○ Segregate duties across finance, accounting and treasury functions to prevent over-concentration of power and reduce risk of management override. ○ Safeguard company chops, banking tokens, cheque books, and verify authenticity of approvals and confirmation documents. ○ Build a clear mechanism to record and maintain an audit trail (e.g. use electronic approvals and digital signatures, when appropriate) to mitigate risks of forgery or circumvention and avoid audit issues. ○ Track deployment of funds to ensure consistency with intended use (e.g. segregated bank accounts and designated approvals for use of proceeds from fundraising activities).
Are funds sufficiently monitored?	<ul style="list-style-type: none"> • Ensure continuous oversight and early identification of red flags (e.g. circular payments, suspicious recipients, unreported transactions) by: <ul style="list-style-type: none"> ○ Provision of regular updates, including monthly management accounts (group-consolidated or at least issuer-level and key operating / fund-holding subsidiaries) to the Board and senior management. ○ Regular discussions between management and AC / AC and auditors to ensure issues are detected and discussed in a timely manner.

Delegation of duties

Is delegation reasonable?	<ul style="list-style-type: none"> • Consider to what extent duty can be delegated and whether the nature and risk of the matter justify delegation. • Assess whether the delegate has the requisite knowledge, experience and capability to discharge the duty. • Clearly define and record roles and responsibilities (e.g. written terms of reference, matters reserved for the Board, items that require prior approval or mandatory escalation).
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Is there adequate supervision?	<ul style="list-style-type: none"> • Set up clear communication channels for timely and regular reporting, with timely documentation (including follow-up actions taken). • Monitor the delegate’s performance and periodically reassess whether delegation remains appropriate. • Take action where risk profile changes or there are signs of inadequate discharge of duties.
Is regular training required and provided?	<ul style="list-style-type: none"> • Determine the type of training required (e.g. legal, regulatory, internal controls), delivery method (external or internal), frequency and duration. • Review whether training provided remains adequate or whether there is a need to renew or update training.

Documentation and record retention

Are documentation and record retention policies adequate?	<ul style="list-style-type: none"> • Regularly bring RMIC policies to the attention of staff members and ensure such written policies (and any updates) are easily accessed by relevant staff. • Implement a comprehensive record-keeping policy covering different document types (e.g. approval and decision-making records, accounting records, due diligence and professional advice), with clear retention periods. • Ensure records are safely stored and retain end-to-end traceability (key records). • Maintain robust IT controls, redundancy and backup arrangements to mitigate risks of data loss or system failure. • Ensure departing directors and other employees’ timely return of all issuer-owned assets and properties, such as electronic devices, books and records, etc. • Conduct periodic internal audit and compliance reviews and remediate identified weaknesses in documentation processes or document retention.
Are Board papers and minutes of sufficient quality?	<ul style="list-style-type: none"> • Do directors have access to Board papers that contain sufficient information (including supporting documents) and clearly articulate key risks, assumptions and considerations? • Are minutes for the Board and Board committees prepared in a timely manner; do the minutes completely and accurately record discussions, decisions, dissenting views and follow-up actions? • Is the company secretary adequately assisting the Board in keeping relevant records and providing the required support to ensure proper Board procedures?



B. Quick reminders to the Board, management and AC



Robust internal controls:

The Board, management and AC are jointly responsible for establishing and maintaining effective RMIC systems to procure compliance with the Listing Rules, prevent and detect fraud, and safeguard the issuer’s assets.



Ongoing monitoring:

Monitor the effectiveness of the RMIC systems on an ongoing basis and conduct periodic reviews. Update the RMIC systems as appropriate when there is a structural change to the issuer’s group or business.

Note: The Board has to confirm the RMIC systems’ effectiveness at least annually.



Sufficiency of resources:

RMIC systems have to be implemented and supervised by adequately resourced staff that are sufficiently qualified. Seek professional advice and deploy technological assistance where appropriate.



Training and guidance:

Provide regular compliance training and guidance to the Board, management and personnel of the issuer and its subsidiaries.

