

# Corporate Governance

## Core Missions

The Board is committed to achieving good corporate governance and institutionalising those practices as part of the framework for the effective and prudent control and management of the Corporation. In this way, the Corporation aspires to fulfill its following core missions underpinned by a commitment to fairness, transparency, accountability and responsibility:

- (a) to enhance the stability of the banking sector through the offering of a reliable source of liquidity, thereby reducing the concentration and liquidity risks of mortgage lending of the banks;
- (b) to promote wider home ownership in Hong Kong; and
- (c) to facilitate the growth and development of the debt securities and mortgage-backed securities markets in Hong Kong.

## Board of Directors

The Board, in fulfillment of its responsibility in providing strategic leadership and effective control of the Corporation, met four times in 2004 to supervise Management in areas relating to the Corporation's business strategy and policies, budgeting and planning, organisational and financial performance, risk management, human resources as well as community relations. The full Board meets in person at least once every quarter. Ad hoc, non-scheduled Board meetings may be convened to deliberate on urgent, substantive matters.

Currently, the Board consists of 18 Directors, of whom four are Executive Directors and 14 are

Non-Executive Directors, all of them having been duly appointed by the Financial Secretary in his capacity as the shareholder of the Corporation. Key information regarding the Directors is disclosed on pages 6 and 7 of the Annual Report. An updated list of the Directors is also published on the Corporation's website ([www.hkmc.com.hk](http://www.hkmc.com.hk)). Whilst not actively involved in the day-to-day management of the Corporation, the Non-Executive Directors play an important role in bringing their independent judgment and considerable knowledge and expertise to the Board's deliberations. The Corporation does not remunerate its Directors.

The Board considers that its size is appropriate in achieving effective decision-making. The combination of experience, knowledge and expertise of its members in the various fields of finance, banking, insurance, accounting and management provides a well-balanced, effective and strategic leadership, guiding the Corporation in its business development.

Some Directors may hold key management positions and/or directorships in other companies. Directors are requested to declare their direct or indirect interests, if any, in any transactions to be considered by the Board at Board meetings and, where appropriate, abstain from the proceedings of the Board meetings at which such transactions are being discussed.

There is a clear division of responsibilities between the Board and the executive functions of the Corporation's management team. The roles of the Chairman and Chief Executive Officer (CEO) are separate. The Corporation has established policy governing the circumstances under which

the Board may delegate its authority. The Board sets the strategic direction and business guidelines, approves financial objectives and monitors the Corporation's performance on an on-going basis. The CEO, who is accountable to the Board, is responsible for implementing the Board's decisions in a proper and efficient manner.

In order to fulfill their responsibilities, the Corporation recognises that Directors should be provided with complete, adequate and timely information prior to Board meetings. In 2004, Board papers were sent to Directors at least seven days before the relevant Board meeting so that Directors were properly briefed before the Board meeting so as to facilitate meaningful discussions on the subject matters during the meeting. The information provided in the Board papers included background or explanatory information relating to the subject matters, supporting documents, analyses, research findings, projections, budgets and forecasts, as appropriate. However, Directors who had a conflict of interests in the subject matter were not provided with the relevant Board papers.

Directors are also provided with the names and contact details of Management and the Company Secretary to facilitate independent and separate access for any further enquiries or advice. The Company Secretary attends all Board meetings and ensures that Board procedures are followed and applicable rules and regulations are complied with.

At the Annual General Meeting of 2004, all the 13 Non-Executive Directors retired and 11 offered themselves for re-election and all of them were re-elected. In 2004, five new Directors were appointed. Appropriate orientation briefing is given to incoming Directors to ensure that they are familiar with the Corporation's business and

governance practices. Directors also receive relevant updates and briefings from Management in a timely manner.

## Shareholders

All the shares of the Corporation are beneficially owned by the Financial Secretary of Hong Kong as Controller of the Exchange Fund. Therefore, whilst the Corporation operates on prudent commercial principles, the Board wishes to ensure that the Corporation delivers its performance and value supported by corporate governance practices which are commensurate with best international standards.

## Audit Committee

The Audit Committee members during the financial year were:

- Dr. David Li, Chairman of Audit Committee, Non-Executive Director
- Mr. Norman Chan, Executive Director
- Mr. Peter Pang, Executive Director
- Mr. Ronald Arculli, Non-Executive Director
- Prof. Andrew Chan, Non-Executive Director
- Mr. David Sun, Non-Executive Director



*Audit Committee Meeting*

## CORPORATE GOVERNANCE

The Audit Committee met three times in 2004.

The Audit Committee plays a central role in assisting the Board to fulfill its corporate governance and oversight responsibilities in relation to the Corporation's half-yearly and annual results, systems of internal control, accounting principles and practices as well as all auditing issues.

The Audit Committee holds regular meetings with Management, the Chief Internal Auditor and the external auditors in order to effectively discharge its delegated responsibilities and reports its findings and recommendations to the Board on a regular basis.

### Internal Control

The Board has the overall responsibility for the Corporation's internal control systems and, through the Audit Committee, conducts periodic reviews of the effectiveness and efficiency of the systems. The internal control systems are designed to provide reasonable assurance against material misstatement or loss, manage risks of failure in the operational systems and the achievement of business objectives, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for internal use and publication, and assure compliance with applicable legislation and regulations. The Corporation aspires to comply with applicable law and regulations in all material respects.

Internal Audit adopts a risk-based audit approach in conducting its periodic independent review of the internal control systems. The Audit Committee formally approves the annual Internal Audit Plan. The Chief Internal Auditor reports directly to the Chairman of the Audit Committee on all matters

relating to internal control. He also reports to the CEO on the day-to-day functioning of the Internal Audit Department, and is empowered to communicate freely with the Chairman of the Audit Committee.

After each review, Internal Audit discussed the findings and recommendations with the department heads under advice to Management. Over the years, Management has taken an active approach in considering those recommendations made by Internal Audit and monitors closely the implementation upon acceptance.

In February 2005, the Chief Internal Auditor duly conducted an independent review of the self-assessment forms provided by each department on compliance with the Corporation's Corporate Governance Code for the year 2004. Based on his review of the audit findings on the Corporation's internal control systems and the self-assessment forms, he was satisfied that there was no material breach of the Corporation's Corporate Governance Code.

### Code of Conduct

To ensure that the Corporation operates with professional competence and to a high level of ethical standards, the Corporation has incorporated a code of conduct in the Staff Handbook which all staff members are required to follow strictly. The code sets out ethical standards and values and also covers various legal and regulatory issues relating to prevention of bribery, acceptance of personal benefits and outside employment.

Staff members are also reminded from time to time of the requirements of the code of conduct which is reviewed and updated when circumstances require.

Staff members are required to give written confirmation of their compliance with the code of conduct on an annual basis.

### **Communication and Transparency**

The Corporation attaches great importance to communications with investors and the public at large. The Annual Report of the Corporation contains comprehensive information on its business strategies and developments. The Corporation's website [www.hkmc.com.hk](http://www.hkmc.com.hk) offers timely access to the Corporation's press releases and other business information. The Corporation also maintains a hotline telephone system to service enquiries from the borrowers.

### **Conclusion**

The Board was satisfied with the corporate governance practices of the Corporation during the year 2004. The Board, assisted by the Audit Committee and Management, will continue to make available necessary resources in pursuing good corporate governance practices, introduce improvements and refinements, where appropriate, thus enhancing the Corporation's efficiency and effective management in achieving its ultimate business objectives.