



# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Corporation is committed to ensuring a high standard of corporate governance to improve the overall accountability, transparency and long-term sustainability of its operations to meet its three key objectives. The Corporation's corporate governance practices are set out in the "Corporate Governance Code" (the "Code") approved by the Board. The Code is premised on the principles of fairness, transparency, accountability and responsibility to all stakeholders and has been issued to the shareholders and the Directors. The Code is also available on our website and is accessible by the public.

Throughout 2009, the Corporation has complied with the provisions of the Code. Maintaining a robust and sensible framework of corporate governance for the effective and prudent management of the Corporation has always been a top corporate priority.

## Enhanced Corporate Governance Measures Adopted by the Corporation in 2009

**Best Practice Checklist on Good Governance and Internal Control in Public Organizations published by the Independent Commission Against Corruption ("ICAC") in November 2009 ("Best Practice Checklist")**

In light of the recent publication of the Best Practice Checklist by the ICAC, Management has augmented the Corporation's Self-assessment Form to provide a more comprehensive checklist for departments to verify due compliance with the best practice.

## Strengthening of Risk Oversight and Management

In 2009, the Corporation further strengthened its accountability and responsibility to all stakeholders by establishing a new division to assist the Chief Executive Officer in risk oversight and management and to make regular enterprise level reporting to the Board.

The new division also examines compliance with risk appetite and risk policies, the general risk management practices and any necessary adjustment to the overall risk management framework of the Corporation.

Two new committees (the Corporate Risk Management Committee and the Operational Risk Committee) have also been established to provide a platform for more focused assessment of risk issues.

## 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 under prudent commercial principles, the Board endeavours to ensure that the Corporation delivers its performance based on good corporate governance practices which are commensurate with the best international standards.

## The Board

The Board is responsible for leading the Corporation and promoting its success in a responsible and effective manner. In fulfilling its responsibility in terms of providing strategic leadership and effective control of the Corporation, the Board meets in person at least once every three months to oversee the Corporation's business strategy and policies, budgeting and planning, organisational and financial performance, risk management, human resources as well as community relations, and on other occasions whenever a Board decision is required on major issues. In order to ensure that well-balanced decisions are made by the Board, the Directors of the Corporation include officials from the government and regulators, representatives from the political parties, banking sector, insurance sector, industry associations, the accounting and legal professions, and also the Consumer Council. During 2009, the Board held four quarterly meetings.

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 withdraw from the meetings as appropriate. In respect of each financial reporting period, the Corporation will seek confirmation

from the Directors in respect of their material interests in transactions involving the Corporation or its subsidiaries. Contracts which are significant to the Corporation's business in which a Director has a material interest and/or material related party transactions are disclosed in the Report of the Directors by reference to Note 33 to the financial statements for the year ended 31 December 2009.

As at 31 December 2009, there were 18 Directors, all of whom had been duly appointed by the Financial Secretary in his capacity as shareholder of the Corporation. Information about the Directors is set out in the Report of the Directors published in the Annual Report. All Directors (with the exception of the four Executive Directors) are non-executive and independent of the Corporation's Management. An updated list of the Directors is 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, Non-Executive Directors do play an important role in bringing their independent judgment and considerable knowledge and diverse expertise to the Board's deliberations, which in turn provide effective steer to Management in pursuit of the Corporation's policies. The Corporation does not remunerate its Directors.

Whenever a Director is newly appointed, the Corporation will provide a briefing and an induction package to the Director on the business activities, strategies and objectives of the Corporation to ensure that he or she is informed of the affairs of the Corporation.

The term of a Non-Executive Director is typically one year. Non-Executive Directors are typically appointed at an Annual General Meeting. Under the Articles of Association of the Corporation, all Non-Executive Directors will retire at the next Annual General Meeting following their appointment but are eligible for re-election.

The Corporation maintains a directors and officers liability insurance policy for its Directors and officers against legal proceedings and other claims arising in the course of discharge of their duties.

## Chairman and Chief Executive Officer

In 2009, the post of Chairman was held by Mr. John C. Tsang. The post of Chief Executive Officer was held by Mr. James H. Lau Jr. The segregation of the posts of Chairman and Chief Executive Officer ensures a clear division of responsibilities between the Board and the executive functions of the Corporation's Management. The Board is responsible for laying down strategic direction and business guidelines, approving financial objectives and closely monitoring the Corporation's performance on an on-going basis. The Chief Executive Officer, who is accountable to the Board, is responsible for leading Management in implementing the Board's decisions in a proper and efficient manner. The Chief Executive Officer ensures that adequate information relating to the Corporation's business will be reported to the Board on a regular basis.

## Company Secretary

The Company Secretary is directly accountable to the Board and her main duty is to ensure that all company secretarial procedures are followed by the Corporation and the Board. In addition, the Company Secretary oversees the preparation of meeting agendas and Board papers and ensures that they are distributed to Directors in a timely and comprehensive manner prior to each Board meeting and the Annual General Meeting of the Corporation. Directors have free access to the advice and services of the Company Secretary concerning corporate governance matters, and she provides guidance to Directors to make appropriate declarations to avoid conflicts of interest.

The Board meeting schedule for 2009 was provided to Directors in advance to facilitate Directors' attendance at Board meetings. Board papers were sent to Directors at least seven days before the relevant Board meeting so that Directors could be properly briefed before the Board meeting. The Board papers typically contained comprehensive background and/or explanatory information about the subject matters and included supporting documents, analyses, research findings, projections, budgets and forecasts, where appropriate. However, any Director adjudged to have a conflict of interests in the subject matter under discussion in a Board paper would not be provided with the relevant Board paper.

All the minutes of Board meetings were taken in sufficient detail, including the matters considered, decisions reached, concerns raised by Directors and dissenting views expressed at the meetings. All minutes of Board meetings and Audit Committee meetings are kept by the Company Secretary and made available for inspection by any Director, except as regards any materials with respect to an agenda item in which that Director is perceived to have a conflict of interest, in such case, the relevant Board papers and Board minutes would be withheld from such Director.

## Audit Committee

The Audit Committee members during the year were:

- Dr. David Li, Chairman, Non-Executive Director
- Mr. Peter Pang, Executive Director
- Mr. Eddie Yue, Executive Director
- Mr. Ronald Arculli, Non-Executive Director (until 16 April 2009)
- Mr. Eddy Fong, Non-Executive Director
- Mr. Chan Kam Lam, Non-Executive Director (until 16 April 2009)
- Mr. Andrew Leung, Non-Executive Director (from 16 April 2009)
- Mr. Abraham Shek, Non-Executive Director (from 16 April 2009)



Audit Committee Meeting

The Audit Committee is responsible for reviewing the Corporation's financial statements, the composition and accounting principles adopted in such statements, the results of the financial audits and the Corporation's management procedures to ensure the adequacy and effectiveness of internal control systems. The Terms of Reference of the Audit Committee are published on the Corporation's website.

The Audit Committee holds regular meetings with Management, Chief Internal Auditor and external auditors, and special meetings may be called to review significant control or financial issues. The Audit Committee also meets on an ad hoc basis to consider special issues requiring its attention. The Chairman of the Audit Committee summarises the reviews conducted by the Audit Committee and highlights the major issues in a report for submission to the Board for consideration by Directors. During 2009, the Committee met on three occasions.

## Internal Auditor

The Corporation has an Internal Audit Department which operates independent of Management and plays a major role in monitoring the internal control systems of the Corporation. The Internal Audit Department is led by the Chief Internal Auditor who reports directly to the Chairman of the Audit Committee on all matters relating to the internal control systems. The Chief Internal Auditor also reports to the Chief Executive Officer on the day-to-day administrative functions of the Internal Audit Department,

and is entitled to communicate freely with the Chairman of the Audit Committee without reference to Management.

Each year, the Audit Committee formally approves the annual Internal Audit Plan drawn up by the Chief Internal Auditor based on his independent risk assessment and other risk management issues observed by him at the regular Operational Risk Committee meetings. In accordance with the annual Internal Audit Plan, the Internal Audit Department adopts a risk-based audit approach in conducting its periodic independent reviews of the Corporation's internal control systems. After each review, the Internal Audit Department discusses the audit findings and recommendations with the relevant department heads and Senior Management. Regular internal audit reports are first submitted to the Internal Audit Committee which is chaired by an Executive Director. The membership composition of the Internal Audit Committee comprises two Executive Directors, the Chief Executive Officer, the Senior Vice Presidents, General Counsel and the Chief Internal Auditor. The internal audit reports and meeting minutes prepared for the Internal Audit Committee are then submitted to the Audit Committee for further review and, thereafter, to the Board of Directors for information.

Over the years, Management has taken an active approach in considering the audit findings and recommendations made by the Chief Internal Auditor

and monitors closely their implementation. In 2009, the Internal Audit Department conducted 15 reviews and one ad hoc investigation.

## External Auditors

The Corporation's external auditors are PricewaterhouseCoopers. Detailed information in respect of the Auditors' remuneration is disclosed in the Corporation's financial statements. The external auditors are allowed to communicate freely with the Chief Internal Auditor and the Audit Committee. To ensure the independence of the external auditors, the external auditors would issue a letter to the Audit Committee prior to the commencement of audit work confirming their independence in accordance with the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants. Such a letter was issued by PricewaterhouseCoopers to the Audit Committee in July 2009.

## Financial Reporting

The Corporation aims to present a clear, balanced and comprehensible assessment of its financial position and prospects. Directors are responsible for the preparation of the financial statements, and there is a statement by the auditors about their reporting responsibilities in the Auditor's Report on the Financial Statements. The Annual Report contains a statement from the Corporation's auditors explaining their responsibility to form an

independent opinion, based on their audit, on the financial statements prepared by the Directors and to report their opinion. The Directors ensure that financial statements are prepared so as to give a true and fair view of the financial status of the Corporation. For the reporting and disclosure of the Corporation's financial statements and business performance, the Corporation aims at providing a comprehensive disclosure of the Corporation's performance, position and prospect to its stakeholders and the general public.

### Internal Control

The Board has the overall responsibility for the Corporation's internal control systems and, through the Audit Committee, conducts periodic review on the effectiveness and efficiency of the systems.

In December 2009, the Board approved the establishment of the Corporate Risk Management Committee, which is chaired by an Executive Director, to oversee the financial and non-financial risks of the Corporation from an enterprise-wide perspective. In addition, the Board further approved the establishment of the Operational Risk Committee to bring all the operational risk items under regular review and monitoring. The other committees already set up to ensure the efficient operation and prudent risk management of the Corporation include the Credit Committee, Transaction Approval Committee and Asset and Liability Committee.

All of the above executive risk committees (other than the Corporate Risk Management Committee) are chaired by the Chief Executive Officer, and all such committees operate under prudent guidelines and procedures. Detailed description of these four executive risk committees and the risk management framework of the Corporation are set out in the section on Business Overview. 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 unauthorised use, ensure the maintenance of proper accounting records for internal use and publication and assure compliance with applicable legislation and regulations.

In March 2010, the Chief Internal Auditor duly conducted an independent review of the Self-assessment Forms provided by each Department in relation to compliance with the Code for 2009. Based on the audit findings on the Corporation's internal control systems and the Self-assessment Forms for the year, the Chief Internal Auditor was of the opinion that there had been no material breach of the Code in 2009.

### Code of Conduct

The Corporation requires the highest standards of integrity and conduct from its staff members. The requirements and the relevant legal obligations are

clearly set out in a code of conduct (“Code of Conduct”) incorporated into the Staff Handbook. The Code of Conduct also sets out, in particular, provisions as regards potential conflicts of interest situations which may arise between the staff members and the Corporation in respect of which the staff members should be aware, and other provisions designed to ensure that they carry out their work properly, ethically, impartially and free from any suggestion of improper influence.

A copy of the Code of Conduct is posted on the Corporation’s intranet to make it readily accessible by all staff members.

Staff members are required to give written confirmation of their compliance with the Code of Conduct on an annual basis. Based on the confirmation received from the staff members, Management was satisfied that staff members had complied with the Code of Conduct during 2009.

## Communication

The Corporation attaches great importance to communications with 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 its other business information. The Corporation also maintains a hotline telephone system to service enquiries from the public.

## Conclusion

The Board was satisfied with the corporate governance practices of the Corporation during 2009. In 2010, the Corporation will continue to review its corporate governance framework with a view to updating the Code to improve those practices in light of ongoing experience, regulatory changes, international trends and developments in order to enhance the Corporation’s efficiency and effective management in pursuit of its business objectives.