

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Corporation believes that good corporate governance will lead to better corporate performance and is essential to attaining long-term sustainable growth. The principles of corporate governance adopted by the Corporation emphasise fairness, transparency, accountability and responsibility to all stakeholders. With this in mind, the Corporation has developed and implemented its corporate governance practices. To codify the Corporation's corporate governance practices, on 14 December 2004, the Board approved the "Corporate Governance Code" (the Code) with effect from that date. The Code has been issued to the shareholders, the directors and is set out on our website.

The Corporation complied throughout the year with the provisions of the Code. Maintaining a robust and sensible framework of corporate governance for the effective and prudent management of the Corporation is a top corporate priority.

## 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 based on corporate governance practices which are commensurate with best international standards.

## THE BOARD

The Board is charged with leading the Corporation and promoting its success in a responsible and effective manner. In fulfillment of its responsibility to provide strategic leadership and effective control of the Corporation, the Board meets in person at least once every three months and on other occasions when a board decision is required on major issues. During the year ended 31 December 2005, the Board held four quarterly meetings 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.

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. Certain significant related party transactions entered into between various Directors with the Corporation are disclosed in the Directors Report by reference to Note 29 to the financial statements.

Currently, the Board has 18 Directors, all of whom have been duly appointed by the Financial Secretary in his capacity as shareholder of the Corporation. Information about the Directors is set out in the Directors Report published in the Annual Report. All Directors (with the exception of four Executive Directors) are non-executive and independent of the Corporation's management team. 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 expertise to the Board's deliberations, which in turn contribute to the effective direction of the Corporation. The Corporation does not remunerate its Directors.

The Corporation has arranged appropriate insurance cover in respect of legal proceedings and other claims against its Directors and officers.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of Chairman and Chief Executive Officer (CEO) are held by Mr. Henry Tang and Mr. James H. Lau Jr. respectively. This segregation ensures a clear division of responsibilities between the Board and the executive functions of the Corporation's management team. The Board sets the strategic direction and business guidelines, approves the 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.

### COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and assists in the preparation of the agendas and by preparing and disseminating Board papers to the Directors in a timely and comprehensive manner.

In 2005, 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 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.

### AUDIT COMMITTEE

The Audit Committee members during the financial year were:

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



Audit Committee Meeting

The Committee is responsible for establishment of accounting principles and practices, auditing, internal control and legal and regulatory compliance of the Corporation. Its responsibilities also include reviewing the interim and final financial statements of the Corporation before submission to the Board for approval.

## Corporate Governance Report

The Audit Committee holds regular meetings with Management, Chief Internal Auditor and the external auditors and special meetings may be called to review significant control or financial issues. During the year ended 31 December 2005, the Committee met on two occasions.

### INTERNAL AUDITOR

The Corporation has an Internal Audit Department which plays a major role in monitoring the internal governance of the Corporation. The Department is led by the Chief Internal Auditor. 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 without reference to the Management team.

The Audit Committee formally approves the annual Internal Audit Plan. The Internal Audit adopts a risk-based audit approach in conducting its periodic independent review of the internal control systems. After each review, the Chief Internal Auditor 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.

### 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.

### 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.

In February 2006, the Chief Internal Auditor duly conducted an independent review of the self-assessment forms provided by each department on compliance with the Code for the year 2005. 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 Code.

### CODE OF CONDUCT

The Corporation requires the highest standards of integrity and conduct from the staff members. Requirements and the relevant legal obligations have been set out in a code of conduct (Code of Conduct)

incorporated into the Staff Handbook. In particular, all staff members should be aware of potential conflicts of interest and ensure that their work is carried out properly, impartially and free from any suggestion of improper influence.

During the year, we had thoroughly reviewed and updated the Code of Conduct to align it with the latest developments in corporate governance practices. 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. Management has received the relevant confirmation and is satisfied that staff members complied with the Code of Conduct during 2005.

## COMMUNICATION

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 public.

## CONCLUSION

The Board was satisfied with the corporate governance practices of the Corporation during 2005. The Board, assisted by the Audit Committee and Management, will continue to review and, where appropriate, improve those practices in light of ongoing experience, regulatory changes, international trends and developments to enhance the Corporation's efficiency and effective management in achieving its ultimate business objectives.