

Corporate Governance Report

their respective connected entities' material interests in significant transactions, arrangements or contracts involving the Corporation or its subsidiaries or subsidiary undertakings. Material related-party transactions between the Corporation and its counterparties will be identified and disclosed in the notes to the financial statements each year in accordance with the Hong Kong Financial Reporting Standards.

As at 31 December 2017, there were 18 Directors all of whom were duly appointed by the shareholders of the Corporation. Information about Directors is set out in the Directors' Report published in the Annual Report and also available on the Corporation's website. All Directors, other than the four Executive Directors, are non-executive and are not actively involved in the day-to-day management of the Corporation. Non-Executive Directors, however, do play an important role in bringing their independent judgement, 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.

For newly appointed Directors, the Corporation will provide an induction briefing on the business activities, strategies and objectives of the Corporation.

The term of a Non-Executive Director is one year, and 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 in respect of the Corporation.

Chairman and Chief Executive Officer

During 2017, the Hon. Paul Chan Mo-po was the Chairman from 23 January to 31 December 2017 with the Hon. John Tsang Chun-wah being the Chairman from 1 to 22 January 2017, and Mr Raymond Li Ling-cheung was the Chief Executive Officer. The roles of Chairman and Chief Executive Officer were separate and not performed by the same individual, which ensured 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 ongoing 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 also ensures that adequate information relating to the Corporation's business is reported to the Board on a regular basis.

Company Secretary

The Company Secretary is accountable to the Board whose main duty is to ensure that all company secretarial procedures are followed by the Corporation and the Board. In addition, the Company Secretary ensures that Board Papers are provided to Directors in a timely manner prior to each Board meeting. Directors have access to the advice and services of the Company Secretary with a view to ensuring that applicable laws, rules and regulations are complied with in respect of Board proceedings.

The schedule for 2017 Board meetings was provided to Directors in advance to facilitate Directors' attendance at Board meetings. The Code requires that Board Papers should generally be sent to Directors at least seven days before the relevant Board meeting so that Directors could be properly briefed before the Board meeting. Board Papers typically contain comprehensive background or explanatory information about the agenda items and include supporting documents, analyses, research findings, projections, budgets and forecasts, where appropriate. However, any Director adjudged to have a conflict of interests in an agenda item for the Board meeting will not be provided with the relevant Board Paper.

All the minutes of Board meetings and Audit Committee meetings are generally 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 where a Director has a conflict of interests in any matter discussed under an agenda item, the relevant minutes or materials would be withheld from such Director.

Audit Committee

During the year under review, the Audit Committee comprised the following members:

- Mr Brian Stevenson, Non-Executive Director (Chairman of the Audit Committee)
- Mr Eddie Yue, Executive Director
- Mr Ng Leung-sing, Non-Executive Director
- Ms Miranda Kwok, Non-Executive Director.

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 its internal controls systems. The terms of reference of the Audit Committee are published on the Corporation's website.

The Audit Committee holds regular meetings with Management, the Chief Internal Auditor and external auditor. 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 any major issues in a report for submission to the Board for Directors' consideration. In 2017, the Audit Committee held two meetings.

Internal Auditor

The Internal Audit Department operates independently of Management and plays a major role in assessing the internal controls 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 Corporation's internal controls. The Chief Internal Auditor also reports to the Chief Executive Officer on day-to-day administrative matters of the Internal Audit Department, and has authority to communicate directly with the Chairman of the Audit Committee without reference to Management.

Each year, the Audit Committee formally approves the annual Internal Audit Work Plan drawn up by the Chief Internal Auditor based on his independent risk assessment and observations of relevant risk management topics discussed at meetings of the Operational Risk Committee and the Corporate Risk Management Committee. In accordance with the annual Internal Audit Work Plan, the Internal Audit Department adopts a risk-based audit



Audit Committee Meeting

approach in conducting its independent reviews of the Corporation's internal controls systems. After each review, the Internal Audit Department discusses the audit findings and recommendations with the relevant department heads, Senior Management and Executive Director. Internal audit reports are submitted to the Audit Committee for review and, thereafter, to the Board for information.

Over the years, Management has adopted an active approach in considering audit findings and recommendations made by the Chief Internal Auditor and closely monitored their implementation.

External Auditor

The Corporation's external auditor is PricewaterhouseCoopers. Detailed information in respect of the auditor's remuneration is disclosed in the Corporation's financial statements. The auditor is allowed to communicate freely with the Chief Internal Auditor and the Audit Committee. To ensure its independence with respect to the Corporation, the auditor would issue a letter, on an annual basis, to the Audit Committee to confirm its independence based on the requirements under section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants. For the purpose of the audit of the Corporation's financial statements for the year ended 31 December 2017, PricewaterhouseCoopers has confirmed its independence to the Audit Committee.

Financial Reporting

The Corporation aims to present a clear, balanced and comprehensible assessment of its performance, financial position and prospects to its stakeholders and the general public. Directors are responsible for the preparation of the financial statements, and there is a statement by the auditor regarding its reporting responsibilities in the Independent Auditor's Report on such financial statements. Directors are to ensure that financial statements are prepared so as to give a true and fair view of the financial status of the Corporation. The annual and interim results of the Corporation are announced in a timely manner after the end of each relevant period.

Internal Controls

The Board has the overall responsibility for the Corporation's internal controls systems and, through the Audit Committee, conducts periodic reviews on the adequacy and effectiveness of the systems.

Various committees have been established to ensure the efficient operation and prudent risk management of the Corporation. These include the Corporate Risk Management Committee which is chaired by an Executive Director to oversee the risks of the Corporation from an enterprise-wide perspective, and the Operational Risk Committee, the Credit Committee, the Transaction Approval Committee and the Asset and Liability Committee, which are management committees chaired by the Chief Executive Officer. Each of these committees has clear and well-defined terms of reference. Detailed descriptions of these five committees and the risk management framework of the Corporation are set out in the Business Overview section of the Annual Report.

The internal controls systems are designed to provide reasonable assurance against material mis-statement or loss, manage risks of failure in the operational processes and the attainment of business objectives, safeguard assets against unauthorised use, ensure the maintenance of proper accounting records for internal use and publication, and ensure compliance with policies and applicable legislation and regulations.

Compliance Reporting

The Compliance Function is part of the Legal Office and is established for focused management of regulatory and compliance risks.

The Compliance Function is led by the Chief Compliance Officer who reports to the Chief Executive Officer through the General Counsel. In accordance with the Compliance Policy and the Compliance Manual of the Corporation, the Compliance Function monitors and advises departments of the Corporation on their compliance practices with a focus on conflict of interests, anti-corruption, anti-discrimination, competition, and privacy and personal data protection matters for the year 2017. The Compliance Function worked with the Internal Audit Department to conduct compliance

audits in 2017 to help ensure that departments of the Corporation maintain robust compliance practices. To enhance the effectiveness of compliance risk management and the independence of both the Compliance Function and the Internal Audit Department, the Board approved an amendment to the Compliance Policy in December 2017 which permits the Compliance Function to carry out compliance audits independently from the Internal Audit Department.

To provide transactional support, the Compliance Function undertook reviews of and participated in the sign-off of key transactions during the year. It also organised training to strengthen staff knowledge on compliance matters. To enhance staff knowledge on compliance matters, Compliance Function implements an annual compliance test with different modules for relevant staff from different departments.

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 the Corporation's Code of Conduct (**Code of Conduct**) which forms part of the Staff Handbook. The Code of Conduct sets out, in particular, provisions in regard to potential conflict of interests that may arise between personal interests of staff members and the interests of the Corporation, and other provisions designed to ensure that staff carry out their job duties properly, ethically, impartially and free from any suggestion of improper influence.

A copy of the Code of Conduct is available on the Corporation's intranet to 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 in 2017.

Communication

The Corporation attaches great importance to communication with the public. The Annual Report of the Corporation contains comprehensive information on its business strategies and developments. The Corporation's website (www.hkmc.com.hk) offers timely access to the Corporation's press releases and its business information. The Corporation also maintains a telephone hotline to service enquiries from the public.

Corporate Social Responsibility

The Corporation is committed to fulfilling its corporate social responsibility (**CSR**). In recognition of its contribution to the community and commitment to CSR, the Corporation has been awarded the Caring Organisation Logo by the Hong Kong Council of Social Service each year since 2008 and is now in its tenth year of CSR participation. In appreciation of employers who place high value on their employees' retirement needs, the Corporation has received the Good MPF Employer Award from the Mandatory Provident Fund Schemes Authority each year since 2014.

In addition, the Corporation continues to maintain the Corporation's website accessible for everyone, including persons with disabilities such as blindness and deafness.

Conclusion

The Board was satisfied with the corporate governance practices of the Corporation during 2017. In 2018, the Corporation will continue to review its corporate governance framework and improve those practices as appropriate in the 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 missions.