

# CORPORATE GOVERNANCE REPORT

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## Corporate Governance Practices

Good corporate governance is conducive to improving overall performance and attaining long-term sustainable growth and is essential in modern corporate administration. The Corporation's corporate governance practices are set out in the "Corporate Governance Code" (the "Code") approved by the Board on 14 December 2004. 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 2008, 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.

## 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 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 2008, 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 2008.

As at 31 December 2008, there were 18 Directors, all of whom had been duly appointed by the Financial Secretary in his capacity as shareholder of the Corporation. Information of 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 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.

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

The Corporation maintains appropriate insurance cover 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 2008, 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 team. 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 the management team in implementing the Board's decisions in a proper and efficient manner.

### **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.

In 2008, 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. The Board Papers typically contain comprehensive background and/or explanatory information about the subject matters and include 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 will not be provided with the relevant Board Paper.

## Audit Committee

The Audit Committee members during the year were:

- Dr. David Li, Chairman, Director
- Mr. Peter Pang, Executive Director
- Mr. Eddie Yue, Executive Director
- Mr. Ronald Arculli, Director
- Mr. Eddy Fong, Director
- Mr. Chan Kam Lam, Director



Audit Committee Meeting

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

The Audit Committee holds regular meetings with the management team, Chief Internal Auditor and external auditors, and special meetings may be called to review significant control or financial issues. During 2008, 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 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 internal control systems. The Chief Internal Auditor also reports to the Chief Executive Officer on the day-to-day functioning of the Internal Audit Department, and is entitled to communicate freely with the Chairman of the Audit Committee without reference to the management team.

Each year, the Audit Committee formally approves the annual Internal Audit Plan. In accordance with such annual Internal Audit Plan, the Internal Audit Department adopts a risk-based audit approach in conducting its periodic independent reviews of the internal control systems. After each review, the Internal Audit Department discusses the findings and recommendations with the relevant department heads and Senior Management. Over the years, the management team has taken an active approach in considering recommendations made by the Internal Audit Department and monitors closely their implementation.

### 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 review on the effectiveness and efficiency of the systems. The other committees set up by the management team to ensure the efficient operation and prudent risk management of the Corporation include the Credit Committee, Transaction Approval Committee,

Asset and Liability Committee and the IT Steering Committee, all of which are chaired by the Chief Executive Officer, and all such committees operate under prudent guidelines and procedures. 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 February 2009, 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 the year 2008. Based on the audit findings on the Corporation's internal control systems and the self-assessment forms, the Chief Internal Auditor was satisfied that there had been no material breach of the Code in 2008.

## 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 conflict of interests situations which may arise between the staff members and the Corporation of which the staff members should be aware, and other provisions designed to ensure that they carry out their work properly, 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, the management team was satisfied that staff members had complied with the Code of Conduct during 2008.

## 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 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 2008. The Board, assisted by the Audit Committee and the management team, 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.