



Best Corporate Governance Disclosure Awards

最佳公司管治資料披露大獎

Judges' Report
2000



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS



OBJECTIVE: To encourage and promote good corporate governance disclosure practices in Hong Kong.

	No.
ENTRIES: Hang Seng Index Category -----	27
Non-Hang Seng Index Category -----	21
Public Sector/Not-for-Profit Organisations -----	<u>6</u>
	<u>54</u>

JUDGING CRITERIA:

The entrants are judged by the quality and standard of presentation and disclosure of corporate governance information in their latest annual reports in respect of financial year ended in 1999 and up to 31 March 2000.

The Judging Criteria are as follows:

- (a) Overall presentation
- (b) Promptness of reporting
- (c) Quality of disclosure of the following information:
 - (i) Capital structure
 - (ii) Board structure & functioning
 - (iii) Management discussion and analysis on operating and financial affairs as well as on non-financial performance information
 - (iv) Remuneration policy and package analysis of directors and key executives
 - (v) Audit Committee's composition, role and function
 - (vi) Related party transactions and relationship
 - (vii) Other voluntary disclosures such as social responsibility, community service, etc.
- (d) Compliance with corporate governance disclosure requirements of the Companies Ordinance and the Stock Exchange Listing Rules.

THE HKSA BEST CORPORATE GOVERNANCE DISCLOSURE AWARDS WINNERS:

Grand Award HSBC Holdings plc

Hang Seng Index Category

Diamond	HSBC Holdings plc
Platinum	CLP Holdings Limited
Gold	Hang Seng Bank Limited
Special Mention	Johnson Electric Holdings Limited

Non-Hang Seng Index Category

Diamond	Kerry Properties Limited
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Public Sector/Not-for-Profit Organisations

Diamond	Mass Transit Railway Corporation
Platinum	Kowloon-Canton Railway Corporation

AWARD COMMENTARIES

This "Best Corporate Governance Disclosure Awards" competition is the first competition of such kind in Hong Kong. "Corporate Governance" is a relatively new subject which only started attracting attention in Hong Kong in recent years. Developments in this area however have been very rapid, witnessed by guidelines on good corporate governance practices and disclosure requirements by the relevant regulatory bodies. The Hong Kong Society of Accountants has been in the forefront in promoting good corporate governance, with some of our key recommendations since adopted by the Listing Rules.

It is our view that prevailing corporate governance practices in Hong Kong are respectable by international standards and high by regional standards. However, a lot more still needs to be done before Hong Kong has a system that resembles developed country models. The basic regulatory framework seems to be in place but corporate governance still needs to be entrenched in the corporate culture.

Objective

The HKSA has organised this Award with the aim to provide a benchmark/examples of existing best practices, to assist and encourage more companies to emulate the achievement of the best in formulating their own corporate governance practices, policies and disclosures.

Therefore, the winners must demonstrate a high standard of corporate governance practices and disclosures in order to qualify for the Award.

Judging Considerations

In coming to its conclusion of the selected entries, the Panel of judges and reviewers have gone beyond looking at the quality and compliance of disclosures in the companies' annual reports, which formed the basis of the Award assessment, but have also taken an overall view of the corporate governance structures and practices of the companies as reflected in their annual report, and the clarity with which such information has been presented. In performing this overall review, the Panel has also taken account of other relevant information which are in the public domain about the companies concerned, and paid particular attention to the transparency and understandability of the relevant disclosures in relation to such information in the annual report.

Judges' Overall Remarks

Generally speaking, the level and standard of corporate governance disclosure is found to be much higher in the Hang Seng Index (HSI) Constituent Companies than the Non-HSI Companies. This may be due to more companies in the former category being subjected to more stringent corporate governance rules and regulations of other countries by reason of their overseas listings.



While it can be said that we have a high standard of compliance with mandatory corporate governance rules and regulations, this should not be the ultimate aim. We would like to see more voluntary disclosures directed at providing shareholders and investors with appropriate data and information so that they can properly evaluate their investments and make informed decisions, rather than disclosures designed to meet the minimum statutory or regulatory requirements. In this regard, we would encourage companies to provide greater information about their financial and operational profile and ownership structure. We also encourage better segmental information and more performance indicators, more details on remuneration policies, compensation figures and the working of Board committees.

We hope we have provided a number of benchmarks for guidance on these aspects.

In the Public/Not-for-Profit sector, overall standards vary significantly. We believe this is because corporate governance regulations tend to be directed at the private sector, and therefore, the public/not-for-profit sector is short of a set of guidelines in this respect. However, some entries in this category have made exemplary efforts, and, in particular, our Award winners have proved that a high standard of governance practices and disclosures can be achieved, and could be expected equally, in the public sector.

Attributes

We have provided against each Award winning entry and category, commentaries on the kinds of practices and disclosures that are to be encouraged as meeting the high standard of good corporate governance. We hope these offer some general but useful guidance to companies which seek to develop good corporate governance practices and policies within their own organisations.

A specific mention should be made of the promptness of reporting achieved by all Award Winners, all within two months after the financial year end.

Compliance

Compliance with mandatory corporate governance disclosure requirements of the Stock Exchange Listing Rules and the Companies Ordinance is generally high with no major non-compliance identified.

There are, however, a number of common areas where additional disclosures will help further improve compliance and disclosure standards and we make suggestion for increased disclosures as follows:-

1. All listed companies reviewed have complied with the requirement of the Stock Exchange Listing Rules of having non-executive directors on their board. However, a few did not specify which of the non-executive directors are "**independent**" in their annual report. Companies should also clearly specify the length of service of the non-executive directors and whether they are appointed on a specific term or not.

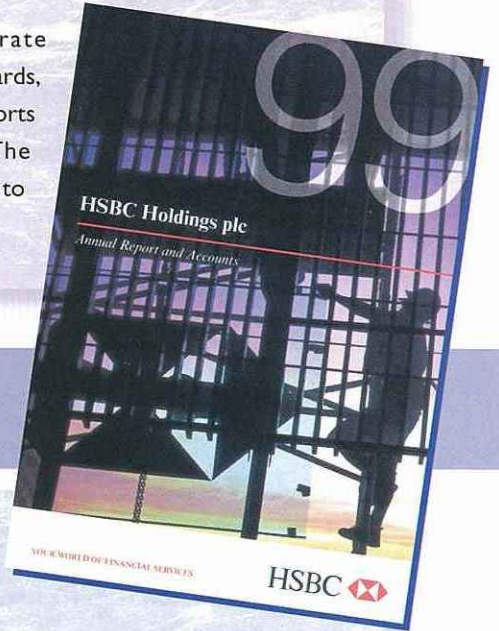
2. On board structure and functioning, companies should consider disclosing information such as contribution and role of non-executive directors, number of board meetings and directors' attendance at those meetings.
3. The biographies of members of senior management who are not directors should be disclosed in addition to those relating to directors.
4. Information in relation to share options granted such as the value of share options granted and the date of grant should be disclosed for a better understanding of the arrangements.
5. The nature of corporate interests held by directors and/or substantial shareholders could be more clearly explained.
6. On directors' remuneration, information such as remuneration policy and remuneration committee, to the extent they exist, and package analysis is all useful information that could be disclosed.
7. Most companies confirmed in their annual reports that they had an Audit Committee. Consideration should be given to disclosing further details such as the committee's terms of reference, role and function, composition, specific matters handled during the period, etc.
8. The Management Discussion and Analysis section in the annual report could explain in more precise terms how negative factors, principal risks and uncertainties affect the business to enable the prospects of the company to be more realistically assessed.
9. With regard to related party transactions, companies should consider disclosing not only the existence of such transactions but also discussion of the impact of the transactions on the reporting company as well as a summary of the independent adviser's report, if one exists, in the annual report, regardless of whether such information has been circulated before in seeking the approval of the shareholders.

Grand Award

HSBC Holdings plc

Commentaries:

1. Overall, HSBC sets a high standard of corporate governance that Hong Kong listed companies should aspire to: It is the best among all entries in overall compliance, disclosure, layout, presentation of an annual report.
2. HSBC has established most extensive corporate governance practices than those called for in the standards, including larger number of independent directors, reports from board committees, a detailed "Report of The Directors" which also include the compensation paid to individual directors and senior executives.



Hong Seng Index Category

Diamond Award

HSBC Holdings plc

Board of Directors:

Executive

- Sir John Bond (Group Chairman)
- K.R. Whitson (Group Chief Executive)
- W.R.P. Dalton
- D.G. Eldon
- D.J. Flint (Group Finance Director)
- S.K. Green
- A.W. Jebson

Non-Executive

- The Baroness Dunn (Deputy Chairman)
- D.E. Connolly, OBE
- H. Sohmen, OBE

Independent Non-Executive

- Sir Peter Walters (Deputy Chairman)
- The Lord Butler, GCB, CVO
- R.K.F. Ch'ien, CBE
- W.K.L. Fung, OBE
- The Lord Marshall
- C. Miller Smith
- Sir Brian Moffat, OBE
- M. Murofushi
- C.E. Reichardt
- Sir Adrian Swire

Audit Committee Members:

- Sir Brian Moffat, OBE (Chairman)
- D.E. Connolly, OBE
- C.E. Reichardt

Auditors: KPMG Audit Plc

Commentaries:

1. A high standard of corporate governance disclosure and practices are achieved in compliance with Hong Kong, United Kingdom and United States rules. Also in compliance with Bank for International Settlement (BIS) / The International Organisation of Securities Commissions (IOSCO) best practice in market and credit risk disclosure.
2. Excellent information disclosures:
 - Comprehensive review of risk management systems and internal controls.
 - High degree of transparency on Directors' Remuneration disclosures including remuneration policies and details of pay and benefits of individual key executives.
 - Excellent presentation of detailed information and commentary on the financial performance and financial position of individual geographical segments, and in-depth analysis of the balance sheet and income statement, with good use of graphs to indicate key trends.
 - Discussion of employee relations, such as the policies on employee involvement and employment of disabled persons.
3. Prompt reporting: Results announced within two months after year end.

Platinum Award *CLP Holdings Limited*

Board of Directors:

Executive

Ross E. Sayers (Managing Director and Chief Executive Officer)

Peter P.W. Tse (Chief Financial Officer)

Non-Executive

The Hon. Michael D. Kadoorie (Chairman)

W. E. Mocatta (Vice Chairman)

J.S. Dickson Leach (Vice Chairman)

R.J. McAulay

V.F. Moore

S.F. Goldman

J.A.H. Leigh

R. Bischof

I.D. Boyce

Independent Non-Executive

The Hon. Sir S.Y. Chung, GBM, GBE, JP

The Hon. T.S. Lo, GBM, JP

William K. Fung, OBE, JP

Audit Committee Members:

The Hon. Michael D. Kadoorie ("Ex-officio" member)

J.S. Dickson Leach

V.F. Moore

The Hon. Sir S.Y. Chung, GBM, GBE, JP

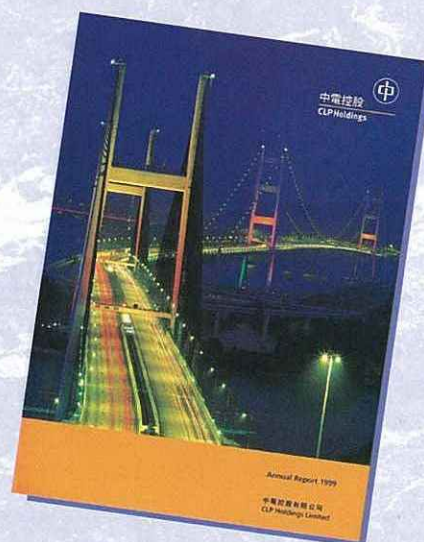
The Hon. T.S. Lo, GBM, JP

William K. Fung, OBE, JP

Auditors: PricewaterhouseCoopers

Commentaries:

1. Excellent local company with international stature.
2. CLP is to be commended for disclosing considerably more information than it is required to. Highlights include: its openness with regards to shareholder value, plus its range of board committees; its focus on "Corporate Governance" in a separate section; the higher level of independence on its board than is mandated; and its focus on "People" and "Environment". Prompt reporting: results announced less than two months after year end. It provided comprehensive and detailed summaries of past results and operational statistics which gave the readers an idea of the company's performance. It is also to be commended for publishing its recent "Corporate Governance Principles & Practices".
3. Excellent overall compliance, disclosure, layout, presentation of an annual report.



Gold Award *Hang Seng Bank Limited*

Board of Directors:

Executive

Vincent H.C. Cheng, OBE, JP (Vice-Chairman and Chief Executive)

Roger K.H. Luk, JP

W.K. Mok

Non-Executive

The Hon. Lee Quo-Wei, GBM, JP (Honorary Chairman)

D.G. Eldon (Chairman)

Ho Tim, JP

David T.C. Ho

C.P. Langley, OBE

Vincent H.S. Lo, GBS, JP

Raymond C.F. Or

S.C. Penney

Independent Non-Executive

John C.C. Chan, GBS, JP

Y.T. Cheng

Jenkin Hui

H.C. Lee, JP

The Hon. Eric K.C. Li, OBE, JP

David W. K. Sin

Richard Y. S. Tang, JP

Audit Committee Members:

H.C. Lee, JP (Chairman)

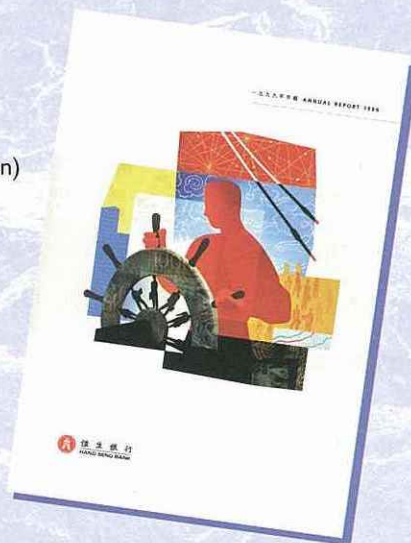
Richard Y.S. Tang, JP

S.C. Penney

Auditors: KPMG

Commentaries:

1. Very good overall compliance and disclosures, in particular: carries extensive disclosure of risk management practice and internal control system, and detailed information on business development and shareholders' return.
2. Comprehensive Financial Review: made good use of tables, charts and diagrams to present operational and financial information, and provided additional information on the performance by business segments.
3. Prompt reporting: Results announced within two months after year end.



OVERALL COMMENTARIES

1. The Hang Seng Index category appears to have the best level of disclosure. HSBC Holdings plc is a clear winner in this category.
2. HSBC is listed in the United Kingdom and Hong Kong and also has American Depositary Receipts in the United States, and is hence legally required to comply with two, if not three, of the strictest and most comprehensive legal and regulatory schemes for publicly listed corporations in the world. This in no way detracts from its management and board's commitment to good corporate governance. In contrast, however, CLP is listed only in Hong Kong. Hence, while it is subject to fairly stringent legal and regulatory requirements, including disclosure and good corporate governance requirements, it is not subject to the additional legal requirements of the United Kingdom and the United States, but it has nonetheless chosen, as a matter of corporate policy, to exceed the minimum requirements. This is precisely the kind of culture that the HKSA Best Corporate Governance Disclosure Awards seeks to encourage, support and recognise, and CLP deserves particular recognition in this regard.
3. Good benchmark set by HSBC on the attention being paid to focused corporate governance disclosure. Good benchmark also set by CLP on good corporate citizenship. Listed companies should learn from these two companies and in so doing raise the quality of disclosure.



Johnson Electric Holdings Limited

Special Mention

The Judges wish to make a special mention of the commendable efforts made by Johnson Electric Holdings Limited in practising a high standard of corporate governance disclosures and a very comprehensive financial review in its Annual Report, and its voluntary disclosures in regard to employee training and development.

Diamond Award *Kerry Properties Limited*

Board of Directors:

Executive

Kuok Khoon Loong, Edward (Chairman)
Ang Keng Lam (Deputy Chairman)
Wong Siu Kong
Ho Shut Kan
Thaddeus Thomas Beczak

Non-Executive

Thomas Joseph Barrack, Jr
Paul James Cromwell Bush
Shan Weijian (alternate to Thomas Joseph Barrack, Jr)

Independent Non-Executive

Fung Kwok King, Victor
Lee Pui Ling, Angelina
Christopher Roger Moss, OBE

Audit Committee Members:

Christopher Roger Moss, OBE (Chairman)
Thomas Joseph Barrack, Jr
Paul James Cromwell Bush
Fung Kwok King, Victor
Lee Pui Ling, Angelina
Shan Weijian (alternate to Thomas Joseph Barrack, Jr)

Auditors: PricewaterhouseCoopers

Commentaries:

1. Kerry's report is the most robust and interesting to read in this category.
2. The most lengthy and comprehensive annual report running to 136 pages. Meticulously put together with different shade of paper for financial information etc. Apart from mandatory disclosures, it also offers other useful data for providing background to management decision, such as the paragraphs on financing and gearing, and corporate communication initiatives (including web-site and investor relations).
3. Clear description of independent directors and reasonable detail on biographies. Reports on Audit Committee and Remuneration Committee disclose how often they meet, plus description of their responsibilities. Kerry is to be commended for forming a Remuneration Committee when it is not required to. The "Report of the Directors" also offers detail on connected transactions.
4. It also provided fairly detailed information on the progress of its major construction projects which was of particular relevance to the industry sector.
5. Prompt reporting: results announced within two months after financial year end.



OVERALL COMMENTARIES

There are few companies in this category which went beyond the minimum disclosures laid down by law or regulations. We would like to see more voluntary and transparent disclosures directed at helping shareholders/investors to gain a full understanding of the company's performance, its management and corporate policies and directions.

Diamond Award **Mass Transit Railway Corporation**

Members of the Board:

Jack So Chak-kwong (Chairman and Chief Executive)
 Cheung Yau-kai
 The Hon. Raymond Ch'ien Kuo-fung
 David G. Eldon
 David W. Gairns
 The Hon. Edward Ho Sing-tin
 Lo Chung-hing
 Nicholas Ng Wing-fui
 Denise Yue Chung-yee

Executive Directorate

Russell J. Black
 William Chan Fu-keung
 Phil Gaffney
 Thomas Ho Hang-kwong
 Clement Kwok King-man (Finance Director)
 Leonard B. Turk

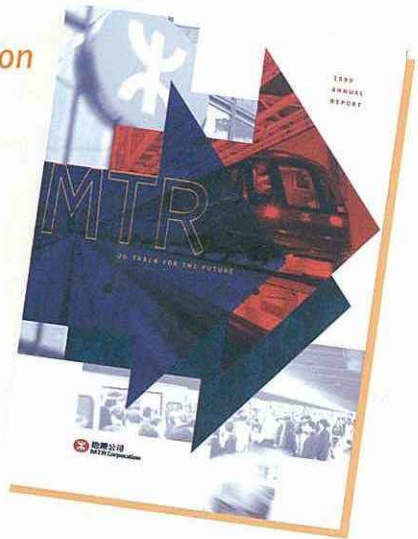
Audit Committee Members:

David W. Gairns (Chairman)
 The Hon. Raymond Ch'ien Kuo-fung
 The Hon. Edward Ho Sing-tin

Auditors: KPMG

Commentaries:

1. Very comprehensive financial review and management analysis.
2. Has a reasonably balanced board.
3. Board meets almost every month.
4. Existence of Audit Committee and Remuneration Committee chaired by an independent non-executive director.
5. Easy to follow presentation, with many voluntary disclosures covering topics such as community services and employee relations.
6. The presentation is clear, easy to understand, particularly in relation to the meeting of objectives.
7. Comprehensive and detailed summaries of past results and efficiency statistics which enabled the readers to assess and comprehend the company's performance. It offered an extensive discussion and analysis of its financial performance and financial position through the use of graphs and charts.
8. Very good overall compliance, disclosure, layout and presentation.



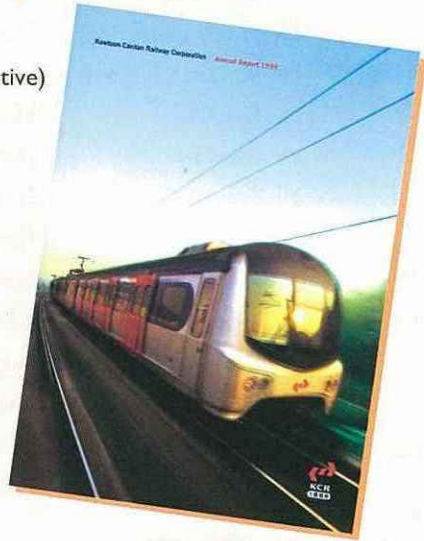
Platinum Award Kowloon-Canton Railway Corporation

Members of Managing Board:

K.Y. Yeung, CBE, JP (Chairman and Chief Executive)
Denys E. Connolly, OBE, JP
Edmond Lau Ting-chung, JP
Nicholas Ng Wing-fui, JP
Vincent Cheng Hoi-chuen, OBE, JP
The Hon. Tim Chung Shui-ming, JP
Denise Yue, JP
Keith Lam Hon-keung, OBE, JP
Vincent W.S. Lo

Executive Directorate

James Blake, OBE, JP
Samuel M.H. Lai
(Senior Director, Finance and Management)
Clement B.T. Chiu
Jonathan H.G. Yu, JP
K.K. Lee
Ian M. Thoms
Y.T. Li



Audit Committee Members:

Denys E. Connolly, OBE, JP (Chairman)
The Hon. Tim Chung Shui-ming, JP
Denise Yue, JP

Auditors: KPMG

Commentaries:

1. Very prompt reporting: results announced 17 days after financial year end date.
2. Existence of Audit Committee and Remuneration Committee chaired by an independent non-executive director.
3. Extensive disclosures on investment and financing strategies and corporate information.
4. Detailed summaries of operational data with effective use of graphical illustrations to highlight the company's financial performance. It offered detailed and informative reviews which enabled the reader to know the company better.
5. Very good overall compliance, disclosure, layout and presentation.

OVERALL COMMENTARIES

1. Lack of enforceable standards revealed very different disclosures standards in this sector. As public sector companies are expected to be more accountable to the public interest efforts should be made to prescribe a minimum standard. We hope to see such standards established, adopted and practiced by the sector.
2. We are particularly impressed with the express commitments of MTRC and KCRC, as public corporations, to adopt the same good corporate governance practices and disclosures that apply to listed corporations. This evinces a "responsible corporate citizenship" attitude which is highly commendable.
3. We commend MTRC and KCRC's decision to comply voluntarily with disclosure standards and good corporate governance practices, and encourage other public sector organisations to do so.



Judging Panel

Chairman:	Mr. P.M. Kam	President, HKSA
Members:	Mr. Jamie Allen	Asian Corporate Governance Association
	Mr. John Bailey	Standard & Poor's
	Mr. Moses Cheng	The Hong Kong Institute of Directors Ltd.
	Mr. Edward K.F. Chow	Chairman of Corporate Governance Committee, HKSA
	Mr. Paul Chow	Hong Kong Investment Funds Association
	Mr. Paul Fan	Hong Kong Stockbrokers Association Ltd.
	Mr. Charles Grieve	Securities & Futures Commission
	Ms. Estella Ng	Hong Kong Exchanges and Clearing Ltd.
	Mr. Anthony Neoh	Senior Counsel
	Mr. Stilpon Nestor	OECD
	Mr. Krishan Sehgal	International Finance Corporation, World Bank Group
	Ms. Joanna R. Shelton	The University of Montana, USA
	Mr. Brian Stevenson	Past President, HKSA
	Mr. Gerald A. Sumida	Asian Development Bank
Secretary:	Ms. Winnie Cheung	Director of Professional Practices, HKSA

Review Panel

Chairperson:	Prof. Judy Tsui	City University of Hong Kong
Members:	<u>Quality Review</u>	
	Mr. Antonio Chan	Grant Thornton
	Mr. Mark Fong	Moores Rowland
	Mr. Neil McCauley	Standard Chartered Bank
	Mr. Michael Scales	The Hong Kong Institute of Company Secretaries
	Mr. Jim Wardell	Rutledge Group Ltd.
	Mr. Alan C.M. Wong	Gammon Construction Ltd.
	Mr. Peter S.H. Wong	Tai Fook Securities Group Ltd.
	Mr. Thomas C.H. Wong	Hong Kong Securities Institute
	Mr. Thomas Y.T. Wong	Charles Mar Fan & Co.
	Dr. T.J. Wong	University of Science & Technology
	<u>Compliance Review</u>	
	Mr. Tommy Fung	Arthur Andersen & Co.
	Mr. Paul Hebditch	Ernst & Young
	Mr. Daniel Lin	Moores Rowland
	Mr. Simon Morris	Mazars
	Ms. Victoria Pau	Grant Thornton
	Ms. Sheila Pattle	KPMG
	Mr. Stephen Taylor	Deloitte Touche Tohmatsu
	Mr. Alvin Wong	PricewaterhouseCoopers
	Mr. Johnny Yuen	Wong Brothers & Co.
Secretary:	Mr. Raphael Ding	Director of Professional Conduct, HKSA

The Hong Kong Society of Accountants would like to express its appreciation to the Panels of Adjudicators for their efforts and time given in judging the entries.

The HKSA would like to thank the following companies and organisations (in alphabetical order) for nominating their representatives to serve on the Panels:

Arthur Andersen & Co.
Asian Corporate Governance Association
Asian Development Bank
Deloitte Touche Tohmatsu
Ernst & Young
Grant Thornton
Hong Kong Exchanges and Clearing Ltd.
Hong Kong Investment Funds Association
Hong Kong Securities Institute
Hong Kong Stockbrokers Association Ltd.
International Finance Corporation, World Bank Group
KPMG
Mazars
Moores Rowland
PricewaterhouseCoopers
Securities & Futures Commission
Standard and Poor's
The Hong Kong Institute of Company Secretaries
The Hong Kong Institute of Directors Ltd.
Wong Brothers & Co.

The HKSA would also like to thank the Corporate Governance Committee and its Organising Committee for putting together the Award programme and organising the Award competition and events.

Corporate Governance Committee

Mr. Edward K.F. Chow, Chairman
Mr. David Tak-kei Sun, Deputy Chairman
Professor Gary Biddle
Mr. Michael Chan
Mr. David Cheng
Mr. Alexander K.C. Chu
Mr. Richard George
Mr. George Hongchoy
Mr. Gordon Jones
Mr. Quinn Y.K. Law
Mr. Peter Nixon
Mr. James Siu
Mr. Richard Sun
Mr. Carlson Tong
Ms. Nancy Tse
Professor Judy Tsui
Mr. Jim Wardell
Mr. Alan Wong Chiu Ming
Ms. Winnie Cheung, Secretary
(Director, HKSA)

Corporate Governance Committee, Organising Committee of the Award

Mr. Edward K.F. Chow, Chairman
Mr. David Cheng
Ms. Winnie Cheung
Mr. Alexander K.C. Chu
Mr. Peter Nixon
Mr. James Siu
Mr. Jim Wardell
Mr. Alan Wong Chiu Ming
Ms. Mary Lam, Secretary
(Assistant Director, HKSA)



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公司管治
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Hong Kong
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Accountants

Hong Kong Society of Accountants, 4/F., Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
香港金鐘道八十九號力寶中心二座四樓香港會計師公會

Tel 電話 : (852) 2287 7228 Fax 傳真 : (852) 2865 6603

Web: <http://www.hksa.org.hk>

E-mail: hksa@hksa.org.hk