



2005

Best Corporate Governance  
Disclosure Awards  
最佳企業管治資料披露大獎

**Best Corporate Governance Disclosure Awards**  
**Judges' Report**

Organiser



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

# 2005 最佳企業管治資料披露大獎

## Best Corporate Governance Disclosure Awards

### Award Winners

#### Significant Improvement Award

Hang Seng Index Category      Hutchison Whampoa Limited

Non-Hang Seng Index Category      Standard Chartered PLC

#### Hang Seng Index Category

Diamond      CLP Holdings Limited

Platinum      HSBC Holdings plc

Gold      Li & Fung Limited

Special Mention      MTR Corporation Limited

Special Mention      Swire Pacific Limited

#### Non-Hang Seng Index Category

Diamond      Hong Kong Exchanges and Clearing Limited

Platinum      Hysan Development Company Limited

Gold      Standard Chartered PLC

#### Growth Enterprise Market Category

Diamond      Media Partners International Holdings Inc.

#### Public Sector/Not-For-Profit Organisations

Diamond      Airport Authority Hong Kong

Platinum      Securities and Futures Commission

## Objectives

- To promote greater awareness of corporate governance
- To encourage and promote improvements in the standards of corporate governance disclosure practices in Hong Kong
- To give recognition to those companies/organisations whose annual reports set the standard in terms of corporate governance disclosures and underlying governance structures and practices

## Entries

- Listed companies:
  - Hang Seng Index (HSI)-constituent companies
  - Non-HSI-constituent companies listed on Main Board
  - Growth Enterprise Market (GEM) companies
- Public sector / Not-for-profit organisations

## Review and Judging Procedures

Following an initial vetting procedure to exclude problem reports (e.g., those which have qualified audit reports or companies whose shares have been suspended for a protracted period), two levels of review are conducted -

- (i) Quality Review: This involves an assessment of the quality and standard of presentation and disclosure of corporate governance information in the annual reports, with the emphasis on voluntary disclosures. Where appropriate, other relevant publicly-known information about the companies/organisations is also taken into account.
- (ii) Compliance Review: This focuses on compliance with the statutory corporate governance disclosure requirements under the Companies Ordinance and the mandatory disclosures under the rules governing the listing of securities on the Stock Exchange Main Board or GEM (referred to in this report generically as “Listing Rules”), as appropriate.

The Review Panel reviews the annual reports of entrants and produces a short list in each category for final judging by the Judging Panel, which then determines the Diamond, Platinum and Gold Award winners in each entry category.

For the Significant Improvement Awards, the Review Panel compares the current year’s report with the previous year’s report of the relevant companies/organisations. The panel firstly identifies the reports that show the most substantial increase in overall marks in current year’s competition compared with the previous year’s and which have also achieved a reasonably good overall corporate governance standard. A further review of the relevant entrants’ reports is then conducted in each case, as an additional check to highlight the specific areas of improvement. Those reports in each category exhibiting the most substantial improvements are put forward to the Judging Panel for final review. The judges then determine the winners of the Significant Improvement Award.

## Judging Criteria

- Overall presentation
- Promptness of reporting
- Quality of disclosure of the following information:
  - corporate governance statement and practice
  - capital structure
  - board structure and functioning
  - management discussion and analysis in respect of operating and financial affairs
  - remuneration committee and policy and details of directors' remuneration packages
  - audit committee's composition, role and functioning
  - related party transactions and relationships
  - other voluntary disclosures, such as social responsibility and community service
- Compliance with corporate governance disclosure requirements of the Companies Ordinance and the Stock Exchange Main Board or GEM Listing Rules, as appropriate
- Ease of identifying compliance information

# Overall Commentaries

## Background and Recent Corporate Governance Landmarks

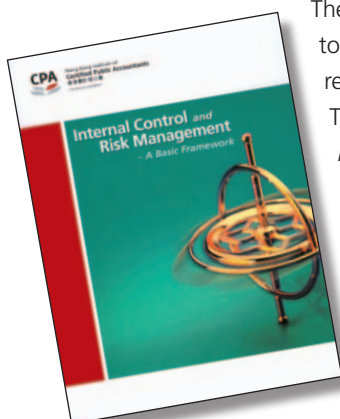
The Hong Kong Institute of Certified Public Accountants ("the Institute")'s Best Corporate Governance Disclosure Awards competition (BCGDA) was first held in 2000. This is the sixth successive year in which the BCGDA has been organised by the Institute as part of the effort to promote greater awareness and higher standards of corporate governance. Over this period, the competition has gained considerable support from the government, regulators and the business and professional community for the excellence that it salutes.

During 2005, developments have continued to take place in the field of corporate governance, both in the international arena and locally. The Organisation for Economic Cooperation and Development (OECD)'s *"Guidelines on Corporate Governance of State-owned Enterprises"* was published following the OECD/World Bank 2005 Asian Roundtable on Corporate Governance, which took place in Bali in September 2005. The principal discussion items at the roundtable were the corporate governance of banks and state-owned enterprises (SOEs) and a stock take of progress in policy reforms in Asian countries since the publication of the *"White Paper on Corporate Governance in Asia"* in 2003. The guidelines, which are based on and fully compatible with the *"OECD Principles of Corporate Governance"*, provide the first international benchmark to assist governments in improving the corporate governance of SOEs and in evaluating and improving the way they perform their ownership function.

The standardisation of the contents of the Management Discussion and Analysis / Operating and Financial Review (OFR) in annual reports is another issue that has been attracting interest internationally. In the UK, for example, new regulations were introduced into the Companies Act requiring directors of listed companies to prepare an OFR covering non-financial issues (e.g., environmental and employee matters) and providing a forward-looking appraisal of the company's prospects. The new regulations for a statutory OFR apply to companies whose financial years began on or after 1 April 2005. The UK Department of Trade and Industry has published guidance for companies and other stakeholders on the statutory OFR and changes to the directors' report. The UK Accounting Standards Board issued a Reporting Standard on OFR in May 2005. More recently, in October 2005, the International Accounting Standards Board (IASB) issued a discussion paper entitled *"Management Commentary"* to seek views on, amongst other things, whether the IASB should develop a standard on this subject.

In Hong Kong, to further promote the practice of good corporate governance and disclosure among listed companies, the Stock Exchange revised its Listing Rules by introducing the Code on Corporate Governance Practices ("the Code") and Corporate Governance Report in November 2004. The Code, with the exception of the provisions on internal controls, became effective for accounting periods commencing on or after 1 January 2005. The Code provisions on internal controls, and also the disclosure requirements in the Corporate Governance Report relating to listed companies' internal controls, took effect for accounting periods commencing on or after 1 July 2005.

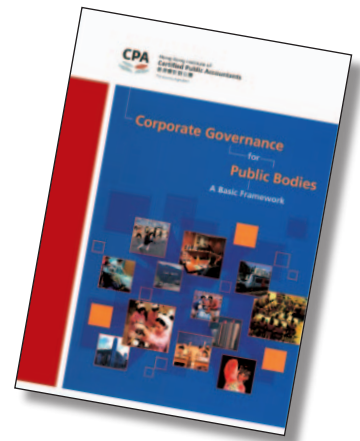
The Institute was asked by the Stock Exchange to develop further guidance to help listed companies understand and implement the Code requirements relating to internal controls and devise their internal control procedures. The Institute published a bilingual guide, entitled *"Internal Control and Risk Management – A Basic Framework"* in June 2005, which drew on established work overseas, including the work undertaken by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in the United States and the publication, *"Internal Control: Guidance for Directors on the Combined Code"* ("Turnbull Guidance") issued in the United Kingdom. The guide also emphasised the need to balance compliance and performance.



The guide on internal control and risk management, together with a corporate governance guide for the public sector, entitled “*Corporate Governance for Public Bodies – A Basic Framework*”, published by the Institute in June 2004, have attracted favourable comments both in Hong Kong and at international forums.

On the legislative front, the Companies (Amendment) Ordinance 2004, which, inter alia, implemented the Standing Committee on Company Law Reform’s recommendations to enhance shareholder remedies, came into effect in July 2005.

In January 2005, the government invited views on proposed amendments to the Securities and Futures Ordinance in order to give statutory backing to the more important listing requirements by codifying them in the statute, with the aim of strengthening the current enforcement regime and promoting compliance. The proposals were also intended to help raise the standards of corporate governance in Hong Kong and enhance investor confidence in the quality and integrity of the Hong Kong market.



## **Aim and Scope of the BCGDA**

The aims of the BCGDA are two-fold: firstly, to establish benchmarks of existing best practice against which companies/organisations can measure their own performance and, secondly, to encourage more companies/organisations to make reference to those examples in formulating their own corporate governance policies, practices and disclosures.

The Significant Improvement Award was first introduced in 2002 and was extended to all categories in 2003. This year, the organising committee was looking to see qualitative progress to the next stage of development in corporate governance practices and disclosures, particularly in the view of the impending implementation of the new Listing Rules on the Code and Corporate Governance Report referred to above.

In 2004, in view of the substantial number of companies listed on the Growth Enterprise Market (GEM) and their aggregate market capitalisation, one more category was added to the BCGDA, namely GEM-listed companies, with the aim of encouraging this group of companies to better their disclosures and practices.

In future years the Institute will continue to review the detailed arrangements to ensure that, even as the bar is raised, the competition can still fulfil the objective of fostering improvements.

## **Judging Considerations**

The judging criteria for this year’s BCGDA were reviewed and refined, taking account of changes in the Listing Rules, which became effective for accounting periods commencing on or after 1 July 2004, and bearing in mind the requirements of the Code and Corporate Governance Report, referred to above. Although the annual reports that were examined this year covered the period before many of the new requirements commenced, and hence the number of new mandatory disclosures was limited, the judging criteria enabled the judges and reviewers to identify those companies that had taken, or were taking, steps to prepare themselves better for the future governance regime.

There was no change in the overall procedure. As indicated above, the review process entailed (i) an initial vetting procedure, (ii) a Quality Review, and (iii) Compliance Review. The Quality Review, as in the past, was at the heart of the BCGDA and, to ensure consistency and accuracy, the process involved more than one review of reports that were being considered for the short list.

The reviewers and judges brief included examining the entrants’ most recent annual reports to assess the scope of disclosures, the quality of corporate governance information and the standards of the underlying governance practices - both the form and substance of corporate governance information provided. They were asked to take an overall view of each entrant’s corporate governance structures, practices and disclosures. The objective was to form an impression of the extent to which a good

corporate governance culture had been established within a particular company or organisation, and of the efforts being made towards improvement. In addition, the reviewers and the judges were invited to take account of any other relevant publicly-known information that might shed light on an entrant's corporate governance practices, and to review the transparency and clarity of any disclosures relating to such information.

## General observations

As a general observation, the judges and reviewers noted some signs of continuing improvements in corporate governance practices in Hong Kong. This year, the best annual reports in the listed companies categories provided a detailed assessment of the extent to which the companies concerned had sought to comply in advance with the Stock Exchange's new Code on Corporate Governance Practices, which indicated that they were fully prepared to implement the new, higher standards of corporate governance practices and disclosure once these became effective.

It was increasingly the norm for companies and organisations to include a separate section or statement in their annual report describing their corporate governance policies and practices.

Information on the board structure (with the board composition clearly and separately identified), the responsibilities and role of the board, the contributions of non-executive directors (NEDs), the frequency of board and committee meetings and the attendance rate of individual directors, was more apparent than before. Best practice included the clear separation of the roles of the chairman and chief executive, with the positions being occupied by two different persons.

More companies and major public sector organisations appeared to have formed remuneration and nomination committees. Also additional information was provided about the terms of reference, number of meetings held and work undertaken by board committees. More of these key corporate governance committees were now composed primarily or entirely of NEDs, and often of independent non-executive directors (INEDs).

More companies and organisations disclosed their policy on directors' remuneration and details of individual directors' emoluments by name, and some of the best reports also disclosed the remuneration of senior management (other than directors) on a named basis.

An increasingly visible area of additional disclosure was corporate social responsibility reporting. It was more common for companies and organisations to include a section in their annual report describing their corporate social responsibility and sustainability policies, covering principally, environment, health and safety, staff and human resources, social and community relations and ethical matters.

While there were positive signs, as outlined above, the reviewers and judges also expressed some disappointment that too many companies and organisations showed no obvious commitment to advance from mere compliance with the basic and mandatory requirements. The judges' decision not to award all of the available trophies in the GEM and the Public Sector/Not-for-profit Categories was, to some extent, a reflection of the above observation.

Turning again to the positives, as indicated above, the judges and reviewers were pleased to be able to identify a number of annual reports that revealed companies moving seamlessly to adoption of the new corporate governance framework, which will be generally applicable in the next round of annual reporting. It is companies such as these that help to establish benchmarks and to provide suitable role models for others to follow in Hong Kong.

## Specific observations

The judges and reviewers highlighted certain particular aspects of practice and disclosure to be commended and encouraged, as well as giving some general indications of where there was scope for further progress. Some of the main points are outlined below, and the fact that several of them

have been made before is symptomatic of the situation described above, that for some companies and organisations, corporate governance standards have reached a plateau from which there is no obvious appetite to advance.

1. It is more common for companies and organisations to include separate sections in their annual report describing their (i) corporate governance policies and practices and (ii) corporate social responsibility and sustainability policies.
2. It is encouraging to see that more companies and organisations are now extending disclosure of remuneration to individual directors on a named basis and a few are extending this disclosure to senior management (other than directors). The new Code will in future require all listed companies to disclose this kind of information on directors' remuneration, while disclosing such information on senior management will be a recommended best practice.
3. The number of companies and organisations with remuneration and nomination committees is increasing, and these committees are now more frequently composed primarily or entirely of NEDs, and often of INEDs, which is to be welcomed. However, in some cases, executive directors are still sitting on these board committees. It would be better practice for these key corporate governance committees to be composed of NEDs and, in particular, INEDs.
4. Some clear criteria should be established for public sector organisations to identify "independence", so that NEDs and INEDs can be more clearly distinguished from each other.
5. The provision of biographical data on directors should extend to non-director senior management and directors that may have resigned during the year.
6. Although it is quite common for the positions of chairman and chief executive be held by separate persons, it is not uncommon for the chairman to also be an executive director. This tends to diminish the separation of the board and executive and present an obstacle to the chairman fulfilling his role as a link between the executive and non-executive directors.
7. It is encouraging to see more detailed information on the board structure, the board's role and responsibilities, the number of board and committee meetings and the attendance record of individual directors. This is relevant and useful as it enhances transparency and accountability. Under the new Code, all listed companies will be required to disclose this information in their Corporate Governance Report.
8. Some companies hold only a limited number of board and committee meetings. Under the new Code, all listed companies will be required to convene a minimum of four meetings during the year. Depending upon the nature of the business, and developments during the reporting period, best practice may suggest the need for more regular meetings to be held.
9. Companies should endeavour to supply more information on related party and connected transactions, including the approval process undertaken in respect of such transactions and the effect of such transactions on the company. This is an important area, particularly in the context of family-controlled companies.
10. The "management discussion and analysis" section of many reports could usefully provide more information outlining, for example, the following: industry and business trends, risks and uncertainties affecting the business and risk management policy, corporate strategies and the principal drivers of performance.
11. There appears to be a general tendency not to disclose and discuss in annual reports negative news or significant challenges and their potential impact on the company. While this reluctance may be understandable, it may tend to undermine the overall quality of stakeholder communications. However, it was encouraging to see that there were some exceptions to this trend and signs in some of the better reports of a willingness to acknowledge areas of difficulty and stakeholder concerns.



## Award Winners

# Significant Improvement Award

## Hang Seng Index Category

### Hutchison Whampoa Limited

#### Board of Directors:

Li Ka-shing (Chairman)

*KBE, GBM, Grand Officer of the Order Vasco Nunez de Balboa, Commandeur de l'Ordre de Leopold, Commandeur de la Légion d'Honneur, JP*

Li Tzar Kuoi Victor (Deputy Chairman)

#### Executive

Fok Kin-ning Canning

(Group Managing Director)

Chow Woo Mo Fong Susan

(Deputy Group Managing Director)

Frank John Sixt (Group Finance Director)

Lai Kai Ming Dominic

George Colin Magnus, *OBE, BBS*

Kam Hing Lam

#### Non-Executive

William Shurniak

#### Independent Non-Executive

The Hon Michael David Kadoorie

*GBS, Officier de la Légion d'Honneur, Commandeur de l'Ordre de Leopold II, Commandeur de l'Ordre des Arts et des Lettres*

Holger Kluge

William Elkin Mocatta (alternate to Michael David Kadoorie)

Simon Murray, *CBE*

Or Ching Fai Raymond, *JP*

Peter Alan Lee Vine, *OBE, VRD, JP*

Wong Chung Hin, *CBE, JP*

#### Audit Committee:

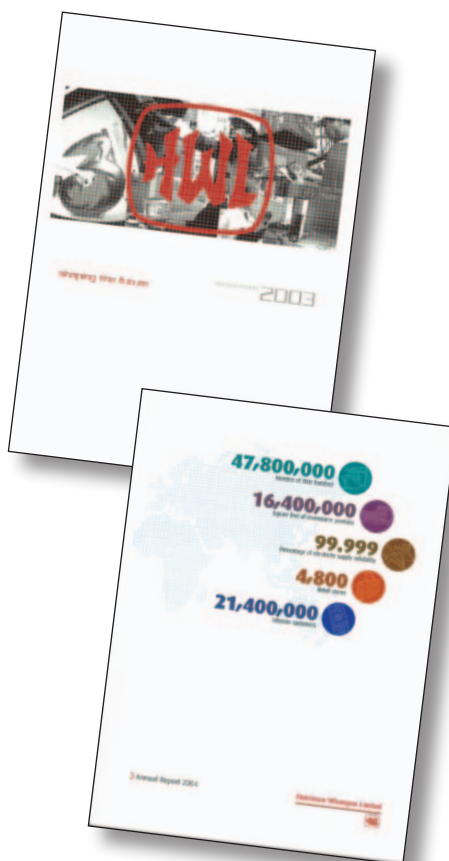
Wong Chung Hin, *CBE, JP* (Chairman)

Holger Kluge

William Shurniak

#### Auditors:

PricewaterhouseCoopers



## Findings

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1. Hutchison Whampoa Limited (“Hutchison”) demonstrated a tangible commitment to improving its corporate governance disclosure and underlying practices. Its 2004 report, building on the moderate base of the corporate governance disclosures in the report for 2003, showed numerous substantive improvements. The corporate governance-related information contained in the 2004 report included:
  - a comprehensive and detailed corporate governance report;
  - full details on the board structure and functioning, with the composition of the board and board committees clearly identified, and the respective roles of the chairman and chief executive officer disclosed;
  - details of the number of board and audit committee meetings held during the year, and directors’ attendance at those meetings;
  - a statement on the directors’ responsibility for financial statements;
  - a good discussion on risk factors;
  - a separate section on internal control and risk management and a separate statement on the board’s responsibility for internal controls and assessing and managing risks; and
  - the establishment of a remuneration committee in 2005 and information on its terms of reference.
2. The judges considered that Hutchison’s very clear and positive approach to upgrading its corporate governance practices and disclosures deserved recognition and commendation.

## Award Winners

### Significant Improvement Award

#### Non-Hang Seng Index Category

#### Standard Chartered PLC

##### Board of Directors:

##### Executive

Bryan Kaye Sanderson, *CBE* (Chairman)  
Evan Mervyn Davies, *CBE* (Group Chief Executive)  
Michael Bernard DeNoma  
Christopher Avedis Keljik  
Richard Henry Meddings  
Kaikhushru Shiavax Nargolwala  
Peter Alexander Sands

##### Independent Non-Executive

Sir C K Chow  
Jamie Frederick Trevor Dundas  
Valerie Frances Gooding, *CBE*  
Ho Kwon Ping  
Rudolph Harold Peter Markham  
Ruth Markland  
Hugh Edward Norton  
Paul David Skinner  
Oliver Henry James Stocken

##### Audit and Risk Committee:

Rudolph Harold Peter Markham (Chairman)  
Jamie Frederick Trevor Dundas  
Ruth Markland  
Hugh Edward Norton

##### Auditors:

KPMG Audit Plc



## Findings

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1. The 2003 annual report of Standard Chartered PLC (“Standard Chartered”) already achieved a high standard. In the 2004 report, the company extended and substantially improved the information provided, reflecting a strengthening of corporate governance structures and practices. Areas of improvement included the following:
  - a more comprehensive and detailed corporate governance report;
  - more details on the board structure and functioning, and more information on the terms of reference and work undertaken by the respective board committees, in particular, on the audit and risk committee’s roles and responsibilities;
  - details of the number of board and board committee meetings held during the year and directors’ attendance at these and at ad hoc meetings;
  - the establishment of a nomination committee in 2004, with information supplied on the composition and terms of reference of the committee and the selection process for new directors; and
  - useful highlights of the relevant changes to executive compensation methodologies and assumptions, and also clear breakdowns of cash versus share compensation, and other different classes of compensation.

### General Commentary Significant Improvement Awards

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1. While the judges were pleased to see some new names amongst the contenders and to be able to find two worthy winners of the Significant Improvement Award, this was to some extent tempered by the fact that they were not able to identify sufficiently substantial improvements in either the GEM or the Public Sector/Not-for-profit Categories to merit conferring a Significant Improvement Award in either of those categories.
2. In some cases, it was true that the standard of disclosures and practices reflected in a particular competition entrant’s 2003 annual report was already fairly high and that it remained good in the current annual report. However, there is always room for improvements to be made and the Significant Improvement Award is intended to encourage and acknowledge annual reports that demonstrate a substantial advancement in a company’s or organisation’s corporate governance performance.

## Award Winners

### Hang Seng Index Category

### Diamond Award

#### CLP Holdings Limited

##### Board of Directors:

##### Executive

Andrew Brandler

(Group Managing Director and  
Chief Executive Officer)

Peter P W Tse (Chief Financial Officer)

Peter W Greenwood

Y B Lee

##### Non-Executive

The Hon Michael D Kadoorie, *GBS* (Chairman)

W E Mocatta (Vice Chairman)

J S Dickson Leach (Vice Chairman)

R J McAulay

J A H Leigh

R Bischof

I D Boyce

P C Tan

##### Independent Non-Executive

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

William K Fung, *OBE, JP*

V F Moore, *BBS*

Hansen C H Loh

Paul M L Kan

##### Audit Committee:

V F Moore, *BBS* (Chairman)

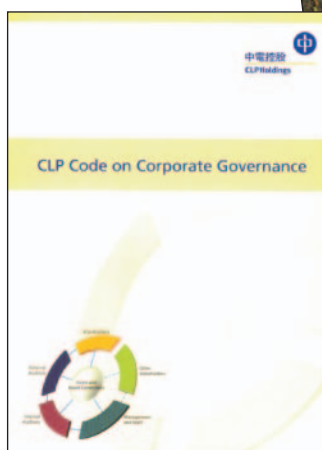
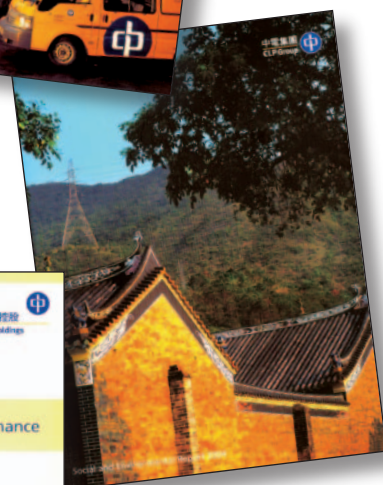
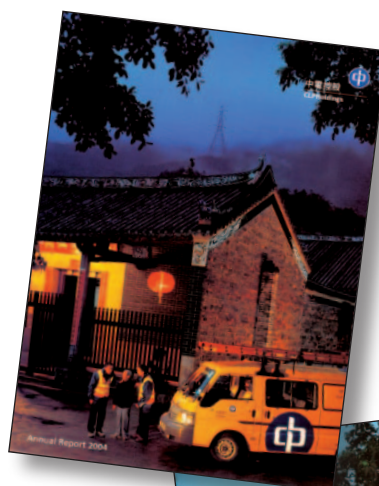
The Hon Sir S Y Chung, *GBM, GBE, JP*

Hansen C H Loh

Paul M L Kan

##### Auditors:

PricewaterhouseCoopers



## Findings

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1. The judges commended the 2004 annual report of CLP Holdings Limited (“CLP”) for its high quality presentation, very comprehensive coverage and the clarity of its disclosure of corporate governance information. The report was transparent and informative and a reflection of good corporate governance practices. It demonstrated that the company had embedded a good corporate governance culture in its organisational structure and operational procedures.
2. The judges were also impressed by the corporate governance report and the inclusion of a separate remuneration report, which set out clearly the group’s emolument policy and basis of determining emoluments payable to directors and senior management. Remuneration of individual directors was disclosed by name, with performance bonuses for executive directors shown separately.
3. The company supplemented its annual report with a comprehensive and easy-to-follow booklet, CLP Code on Corporate Governance, outlining how the company had complied and implemented its corporate governance policy, which, in some areas, exceeded the Code Provisions and Recommended Best Practices of the new Code on Corporate Governance Practices effective from 1 January 2005.
4. A separate booklet, entitled Social and Environmental Report was also published to supplement the annual report, providing information on CLP’s social and environmental performance on a group-wide basis for 2004. The report contained an independent verification of the completeness and accuracy of information presented in it.

## Award Winners

### Hang Seng Index Category

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### Platinum Award

#### HSBC Holdings plc

##### Board of Directors:

##### Executive

Sir John Bond (Group Chairman)  
S K Green (Group Chief Executive)  
A W Jebson  
W F Aldinger  
D G Eldon  
D J Flint (Group Finance Director)  
M F Geoghegan, *CBE*

##### Non-Executive

The Baroness Dunn, *DBE* (Deputy Chairman)  
H Sohmen, *OBE*

##### Independent Non-Executive

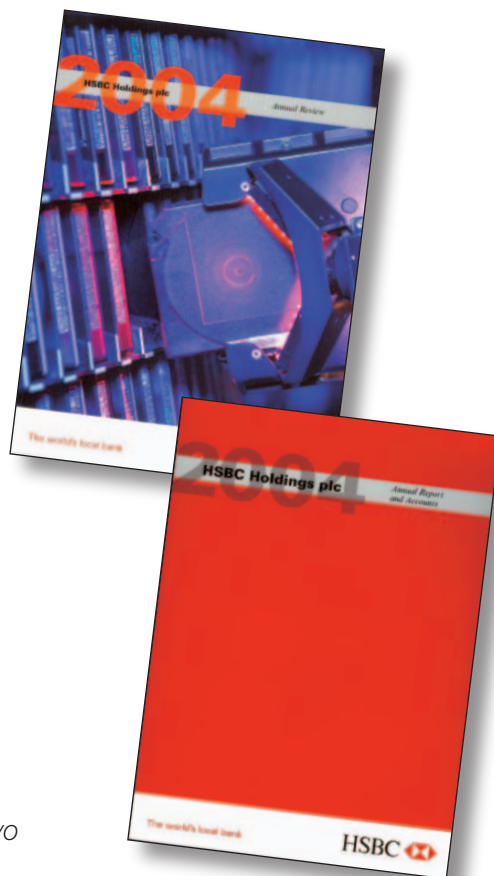
Sir Brian Moffat, *OBE* (Deputy Chairman)  
The Rt Hon the Lord Butler of Brockwell, *KG, GCB, CVO*  
R K F Ch'ien, *CBE*  
J D Coombe  
R A Fairhead  
W K L Fung, *OBE*  
S Hintze  
J W J Hughes-Hallett  
Sir John Kemp-Welch  
Sir Mark Moody-Stuart, *KCMG*  
S W Newton  
C S Taylor  
Sir Brian Williamson, *CBE*

##### Audit Committee:

Sir Brian Moffat, *OBE* (Chairman)  
R K F Ch'ien, *CBE*  
J D Coombe  
R A Fairhead  
Sir John Kemp-Welch

##### Auditors:

KPMG Audit Plc



## Findings

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1. The judges found that, as with the company's past annual reports, the 2004 annual report of HSBC Holdings plc ("HSBC") maintained a high standard of corporate governance practices, consistent with international best practices. This informative report reflected HSBC's keen awareness of the importance of having a good corporate governance culture.
2. HSBC's 2004 report contained comprehensive disclosures of good corporate governance practices, with obvious strengths across many areas, ranging from the structure and functioning of the board and its committees, to the extensive coverage of risk management issues and the disclosure of directors' and auditors' remuneration.
3. HSBC is a very large and complex financial holding company, with business operations in over 77 jurisdictions in five geographical regions, and listings in most major financial centres, including Hong Kong, London, New York and Paris. The group and its subsidiaries have to prepare an annual report that is able to fulfil all the various regulatory and compliance requirements of these different markets. The process to compile all the information required for a consolidated annual report must be a difficult one, yet HSBC was able to deliver its results and the annual report within two months after the year end. This demonstrated a laudable commitment on the part of HSBC's senior management to producing quality and timely information.



### Hang Seng Index Category

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Gold Award

#### Li & Fung Limited

##### Board of Directors:

###### Executive

William Fung Kwok Lun, *OBE, JP* (Managing Director)

Henry Chan

Danny Lau Sai Wing

Annabella Leung Wai Ping

Bruce Philip Rockowitz

###### Non-Executive

Victor Fung Kwok King (Chairman)

Lau Butt Farn

Leslie Boyd

Steven Murray Small (alternate to Leslie Boyd)

###### Independent Non-Executive

Paul Edward Selway-Swift

Allan Wong Chi Yun, *JP*

Franklin Warren McFarlan

Makoto Yasuda

###### Audit Committee:

Paul Edward Selway-Swift (Chairman)

Allan Wong Chi Yun, *JP*

Franklin Warren McFarlan

Makoto Yasuda

Victor Fung Kwok King

Leslie Boyd

###### Auditors:

PricewaterhouseCoopers



## Findings

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1. The judges found the 2004 annual report of Li & Fung Limited (“Li & Fung”) to be a good quality document, which continued to set a positive example for a family-run trading company. The report was clear and informative, yet concise. It contained all the most important corporate governance disclosures, including a dedicated corporate governance report, and demonstrated that the fundamental elements of good corporate governance were well established in the company.
2. The corporate governance section of the report was considered by the judges to be expansive. There was a good coverage of the board’s structure and functions. INEDs represented one third of the board. Details of the various board committees, including the composition, attendance record of individual directors, terms of reference and work undertaken were also disclosed in the report.
3. Li & Fung’s annual report contained a separate section, entitled Corporate Social Responsibility and Sustainability, which explained that the group had developed a Supplier Code of Conduct – a set of labour, health and environmental standards and expectations based on national laws and international best practices – and that the Supplier Code was to be observed by all the group’s approved vendors around the globe. In addition, a detailed statement on staff and community gave an account of the recognition by the group that human capital was a key asset to its growth and profitability.

## Award Winners

### Hang Seng Index Category

### Special Mention



#### MTR Corporation Limited

##### The Board:

###### Executive

Chow Chung-kong (Chief Executive Officer)

###### Non-Executive

Raymond Ch'ien Kuo-fung (Chairman)  
Commissioner for Transport –  
Robert Charles Law Footman  
Secretary for the Environment, Transport  
and Works – Sarah Liao Sau-tung  
Frederick Ma Si-hang

###### Independent Non-Executive

Cheung Yau-kai  
David Gordon Eldon  
Christine Fang Meng-sang  
Edward Ho Sing-tin  
Lo Chung-hing  
T Brian Stevenson

##### Audit Committee:

T Brian Stevenson (Chairman)  
Cheung Yau-kai  
Commissioner for Transport –  
Robert Charles Law Footman

##### Auditors:

KPMG



#### Swire Pacific Limited

##### Board of Directors:

###### Executive

Turnbull David Muir (Chairman)  
Cubbon Martin (Group Finance Director)  
Ho Cho Ying Davy  
Kerr Keith Graham

###### Non-Executive

Baroness Dunn Lydia Selina, *DBE*  
Hughes-Hallett James Wyndham John  
Johansen Peter André  
Swire Sir Adrian Christopher

###### Independent Non-Executive

Eldon David Gordon  
Kwok King Man Clement  
Lee Chien  
Sze Cho Cheung Michael  
Yang Mun Tak Marjorie

##### Audit Committee:

Kwok King Man Clement (Chairman)  
Lee Chien  
Johansen Peter Andre

##### Auditors:

PricewaterhouseCoopers

## Findings

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1. The 2004 annual reports of both MTR Corporation Limited (“MTR”) and Swire Pacific Limited (“Swire”) were considered by the judges to be worthy of a special mention.
2. The judges noted that the two-tier board structure of MTR ensured clarity of roles and a high level of oversight – the first-tier consisting of NEDs, INEDs and government appointees, and the second tier, the executive board, led by the CEO, which was responsible for operations.
3. The MTR’s report also provided a good summary of its operations performance, comparing the performance requirements/customers’ services pledges with actual performance in 2004. It also addressed the instances of failures that occurred towards the end of 2004 and the follow-up action, including implementation of the recommendations of the Independent Review by the Lloyd’s Register Rail.
4. In Swire’s 2004 annual report, the extent of information on directors’ remuneration, in particular, stood out. The remuneration of directors and senior management was disclosed on an individual named basis, with the amount analysed into cash basis (further analysed into (i) basic salary, (ii) bonus, (iii) allowances and benefits) and non-cash basis (further analysed into (i) retirement scheme contributions, (ii) bonus paid into retirement schemes, (iii) housing).
5. The report of Swire also contained a comprehensive management discussion and analysis. The Financial Review section showed a line-by-line review of the movements in the accounts from 2003 to 2004, which provided a good summary explaining the fluctuations in the results/assets/cash flows between these two years. The Review of Operation section provided a good presentation of the main sectors of business, by individual division, including results, challenges and threats. There was also reasonable coverage of community and social interactions in the main business sectors and how they related to the success of the company.

## General Commentary Hang Seng Index Category

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1. Generally, the better reports in the HSI Category continued to set the pace in terms of the quality of corporate governance disclosures and the extent of the structures and processes that the relevant companies had in place. The standards on corporate governance disclosures were very high and there were signs of continuing improvements, which reflected the fact that corporate governance reporting had become a major focus for some of the more prominent listed companies.
2. There was a clear awareness of the need for good communication, not only with shareholders, but also with a broader group of stakeholders, and of the importance of issues of community and corporate social responsibility. This was reflected in specifics, e.g., the publication of codes of conduct for employees and suppliers and, more generally, in the inclusion of separate sections in the annual reports of many companies dealing with these matters or, in some cases, separate reports, supplemented by information on the companies’ websites, etc.

### Non-Hang Seng Index Category

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### Diamond Award

#### Hong Kong Exchanges and Clearing Limited

##### Board of Directors:

###### Executive

Chow Man Yiu Paul, *JP* (Chief Executive)

###### Independent Non-Executive

Lee Yeh Kwong Charles \*, *GBS, JP* (Chairman)

Fan Hung Ling Henry \*, *SBS, JP*

Fong Hup \*

Freshwater Timothy George \*

Kwok Chi Piu Bill

Lee Jor Hung Dannis, *BBS*

Lee Kwan Ho Vincent Marshall

Leong Ka Chai \*, *JP*

Lo Ka Shui \*, *GBS, JP*

Strickland John Estmond, *GBS, JP*

Webb David Michael

Wong Sai Hung Oscar

\* *Government Appointed Directors*

##### Audit Committee:

Strickland John Estmond, *GBS, JP* (Chairman)

Fong Hup (Deputy Chairman)

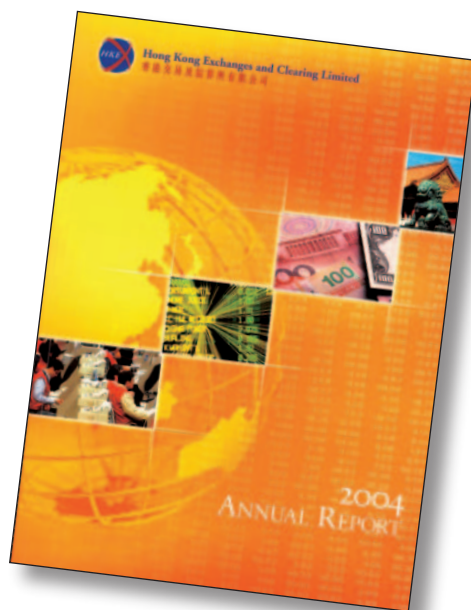
Fan Hung Ling Henry

Lee Kwan Ho Vincent Marshall

Webb David Michael

##### Auditors:

PricewaterhouseCoopers



## Findings

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1. The judges considered that the 2004 annual report of Hong Kong Exchanges and Clearing Limited (“HKEx”) achieved the highest standards in terms of corporate governance best practices and disclosure. As with HKEx’s other annual reports in recent years, the 2004 report provided an excellent level of disclosure of the board structure and functioning, together with full details of the respective board committees, and a strong and comprehensive management discussion and analysis.
2. It is noteworthy that HKEx conducted a very detailed assessment of the extent to which the company complied with the new Code on Corporate Governance Practices. This clearly indicated HKEx’s commitment to leading by example in terms of enhancing corporate governance standards. The assessment revealed that HKEx’s corporate governance practices, in a number of instances, exceeded the standards laid down by the Code. There was also a specific section highlighting the improvements in its corporate governance practices compared with the previous year.
3. The judges were impressed to see that in addition to a corporate governance report, there were also reports from the remuneration committee and the audit committee, setting out their respective terms of reference and providing a summary of the work undertaken during the year.

# Non-Hang Seng Index Category

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Platinum Award

## Hysan Development Company Limited

### Board of Directors:

#### Executive

Peter Ting Chang Lee, *JP* (Chairman)  
Michael Tze Hau Lee (Managing Director)  
Pauline Wah Ling Yu Wong

#### Non-Executive

Fa-kuang Hu, *GBS, CBE, JP*  
Hans Michael Jebsen, *BBS*  
Anthony Hsien Pin Lee  
Chien Lee  
Deanna Ruth Tak Yung Rudgard

#### Independent Non-Executive

Sir David Akers-Jones, *GBM, KBE, CMG, JP* (Deputy Chairman)  
Per Jorgensen  
Geoffrey Meou-tsen Yeh, *SBS, MBE, JP*

### Audit Committee:

Sir David Akers-Jones, *GBM, KBE, CMG, JP* (Chairman)  
Per Jorgensen  
Chien Lee

### Auditors:

Deloitte Touche Tohmatsu



## Findings

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1. The judges considered that the 2004 annual report of Hysan Development Limited (“Hysan”) set a very positive benchmark for listed companies. On a purely voluntary basis, the company chose to measure its corporate governance performance against the requirements of the new Code on Corporate Governance Practices. The assessment revealed that Hysan’s corporate governance practices, sometimes, exceeded the standards laid down in the Code.
2. It is noteworthy that in addition to a Corporate Governance Report, there was also an Audit Committee Report (providing details of audit committee’s role and how it discharged its duties) and a Directors’ Remuneration and Interests Report (providing details on directors’ remuneration policy, service contracts, interests in shares, etc.).
3. The judges were impressed by Hysan’s decision to establish a senior INED position to act as independent non-executive deputy chairman of the board and to chair the audit committee and the emoluments review committee. This was refreshingly innovative for Hong Kong and reflected corporate governance best practice. In addition, the introduction of a formal board evaluation procedure, aiming to enhance the motivation and accountability of the board, and the setting up of a nomination committee, provided other examples of how the company sought to extend the boundaries of good corporate governance practices in Hong Kong. All of these enhancements of good practice in a non-HSI company were particularly commendable given that they were rarely found, even in HSI companies.



### Non-Hang Seng Index Category

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Gold Award

#### Standard Chartered PLC

Standard Chartered PLC (“Standard Chartered”) was also winner of the Significant Improvement Award in the Non-Hang Seng Index category. Please refer to page 10 for details of the composition of its board of directors and audit committee and the name of the auditors.



#### Findings

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1. Standard Chartered’s 2004 annual report reflected a high standard of corporate governance and indicated an awareness of the value of being a good corporate citizen. The company outlined its active participation in a wide range of community activities, setting a good example of corporate social responsibility.
2. The corporate governance report was well laid out, comprehensive and easy to read. The separate directors’ responsibility statement, setting out the directors’ responsibility in relation to preparation of financial statements, safeguarding of assets, prevention and detection of fraud and other irregularities, etc. was particularly impressive.
3. There was a very detailed Directors’ Remuneration Report setting out information about the remuneration committee, the group’s remuneration policy and arrangements, etc. Changes to executive compensation methodologies and assumptions were highlighted, and cash versus share compensation and other different classes of compensation were clearly analysed.
4. It is also worthy of note that Standard Chartered provided a clear explanation of the impact on the group of the new International Financial Reporting Standards, which became effective on 1 January 2005.

## General Commentary

### Non-Hang Seng Index Category

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1. The reviewers and judges found that the best annual reports in the Non-HSI Category matched up to many of those in the HSI category. They contained a high standard of disclosures and corporate transparency, revealing sound underlying corporate governance practices. As in the case of the better HSI Category reports, they demonstrated strong commitment to embedding a good corporate governance culture in their structure and operations.
2. The real challenge remains trying to convey the message to the next level of non-HSI companies that good corporate governance means good business, and that if they want to broaden investor interest and improve their ability to raise further capital from the market, they cannot afford to be complacent about their governance practices.

## Award Winners

# Growth Enterprise Market Category

## Diamond Award

### Media Partners International Holdings Inc.

#### Board of Directors:

##### Executive

George Ka Ki Chang (Vice Chairman)  
Winnie Pik Shan To (Chief Executive Officer)  
Tony Cheung Kin Au-Yeung

##### Non-Executive

Gerald Lokchung Chan (Chairman)

##### Independent Non-Executive

Philip Tit Hon Hung  
Meocre Kwok Wing Li  
Paul Laurence Saffo

#### Audit Committee:

Meocre Kwok Wing Li  
Philip Tit Hon Hung  
Paul Laurence Saffo

#### Auditors:

KPMG



## Findings

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1. The judges found that, in terms of corporate governance reporting, the 2004 annual report of Media Partners International Holdings Inc. (“Media Partners”) was, in many ways, comparable to those of companies listed on the Main Board. Examples included the discussion of the board composition and function, the information on the various board committees and the statement on internal controls. The report contained all the basic elements of good corporate governance.
2. A good summary table was provided of the level of compliance achieved by the company with the latest corporate governance requirements and best practices (i.e., the Code on Corporate Governance Practices). This showed that extra steps had been taken to prepare for, and advance to, a higher level corporate governance standards.
3. The judges were also impressed by Media Partners’ voluntary disclosure of a comparison between the company’s goals and business objectives set out in its prospectus in early 2002 and its actual business progress and achievements to date, which was accompanied by an extensive commentary on the outlook of the company in near and medium terms. This underscored Media Partner’s commitment to enhancing corporate transparency.

### **General Commentary** **Growth Enterprise Market Category**

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1. Although the annual report of the award winner in this category was of a high standard and the efforts of the company have been deservedly acknowledged, the reviewers and judges found that most of the GEM company annual reports still demonstrated a very basic and fairly lacklustre approach to corporate governance practices and disclosures. They met the minimum disclosure requirements of the GEM Listing Rules (which, albeit, in some areas were more extensive than the Main Board Listing Rules) but did not reveal any significant voluntary initiatives, in corporate governance terms, that went beyond the mandatory requirements. This was something of a disappointment and it showed that efforts must continue to be made to promote good governance and to encourage GEM companies to emulate the standards attained by Media Partners in this category.
2. In the light of the above observations, the judges decided that, in this category, it was not possible to confer a full complement of awards this year. In making this decision, the judges also pointed out that the aim of having the different categories of awards was to facilitate comparisons within a peer group and, generally, entrants were not being directly compared between categories. Against this background, they were of the view that it was important to find suitable benchmarks within each category. They considered that the annual report of Media Partners set a good standard for GEM companies to adopt.

### Public Sector/Not-For-Profit Organisations

#### Diamond Award

#### Airport Authority Hong Kong

##### The Board:

Victor Fung Kwok-king, *GBS* (Chairman)  
David J Pang (Chief Executive Officer)  
Marvin Cheung Kin-tung, *SBS, JP*  
The Hon Selina Chow Liang Shuk-yee, *GBS, JP*  
Daniel R Fung, *SBS, JP*  
Secretary for Economic Development and Labour –  
Stephen Ip Shu-kwan, *GBS, JP*  
He Guangbei  
Director-General of Civil Aviation –  
Norman Lo Shung-man, *AE, JP*  
Lo Ka-shui, *MD, GBS, JP*  
Secretary for Financial Services and the Treasury –  
Frederick Si-hang Ma, *JP*  
John Strickland, *GBS, JP*  
Maria Tam Wai-chu, *GBS, JP*  
Peter Wong King-keung, *BBS, JP*



##### Audit Committee:

The Hon Selina Chow Liang Shuk-yee, *GBS, JP* (Chairman)  
Marvin Cheung Kin-tung, *SBS, JP*  
He Guangbei  
John Strickland, *GBS, JP*  
Peter Wong King-keung, *BBS, JP*

##### Auditors:

KPMG

## Findings

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1. The judges found that in terms of corporate governance disclosure and best practices, the Airport Authority Hong Kong (“Airport Authority”)’s 2004/05 annual report set a high standard for the public sector. The report gave appropriate prominence to corporate governance. The following contents and information were particularly worthy of note:
  - A clear corporate governance structure and mechanisms, with an emphasis placed on board independence and management accountability;
  - separation of the posts of chairman and chief executive, with their respective roles being well-defined;
  - full disclosure of the membership, members’ attendance at meetings and the general functions and goals of various board committees;
  - a good section on internal controls;
  - disclosure of the details of the remuneration of the CEO and executive directors on an individual, named basis.
2. In addition, the report provided a comprehensive and interesting business review. The international comparison with other airports on security and on freight throughput was useful and well laid out.
3. Overall, the Airport Authority produced a very attractive and user-friendly report with an excellent presentation in terms of the integration of text, photographs, graphs and tables. The report demonstrated a concerted effort to present information in a clear and comprehensive manner.

# Public Sector/Not-For-Profit Organisations

## Platinum Award

### Securities and Futures Commission

#### Board of Directors:

##### Executive

Andrew L T Sheng, *SBS, JP* (Chairman)  
Mark Dickens, *JP*  
Alexa Lam  
Ashley Alder  
Alan Linning  
Peter Au-Yang

##### Non-Executive

Raymond P L Kwok  
Daniel R Fung, *SBS, JP*  
T Brian Stevenson, *SBS*  
Anna H Y Wu, *SBS, JP*  
The Hon Jasper Tsang Yok Sing, *GBS, JP*  
York Liao, *SBS, JP*  
Christopher W C Cheng, *GBS, JP*  
Eddy C Fong, *SBS, JP*  
Kenneth H W Kwok  
Liu Pak Wai, *SBS*

#### Audit Committee:

Eddy C Fong, *SBS, JP* (Chairman)  
T Brian Stevenson, *SBS* (Chairman)  
Raymond P L Kwok (Deputy Chairman)  
Anna H Y Wu, *SBS, JP* (Deputy Chairman)  
Kenneth H W Kwok

#### Auditors:

KPMG



## Findings

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1. The judges considered that the 2004 annual report of the Securities and Futures Commission (“SFC”) reflected the continuing high standard of corporate governance practices adopted by the SFC, as the public would hope and expect of a securities regulator, with a particularly clear explanation of its corporate governance processes.
2. The corporate governance section provided details of the functions and objectives of key governance committees and panels, which were set up to assist the board of the SFC. Attendance records of individual committee members were also included, which enhanced transparency and accountability.
3. The report presented some good comparisons, including current versus historic performance and the SFC’s costs vis-à-vis overseas regulatory bodies, with a useful and clear analysis of the SFC’s achievements and work in progress during the year, and a comparison of actual performance with its service pledges.

### General Commentary Public Sector / Not-For-Profit Organisations

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1. The judges noted that the better annual reports in this category were reasonably good in terms of corporate governance disclosures and underlying governance practices. However, in the continuing absence of benchmarks or common standards on corporate governance in the public sector in Hong Kong, the annual reports of public sector bodies generally tended to be variable in the quantity and quality of disclosures.
2. The judges also expressed some concern that not enough organisations in the sector appeared to report in a very timely or transparent manner and suggested that more attention needed to be given to public accountability. One specific area in relation to which they considered more should be done was to encourage the disclosure of the remuneration of individual executive directors and senior executives, particularly in the case of larger organisations.
3. Noting that public sector organisations tended not to distinguish clearly between NEDs and INEDs, it was suggested that some clear criteria should be established for making this distinction, to ensure, in particular, that INEDs can be separately identified.



# Judges and Reviewers

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) would like to express its appreciation to the judges and reviewers for their invaluable contributions in assessing, analysing and judging the competition entries.

## Judging Panel

Chairman: Mr. Edward Chow, President, HKICPA

Members: Mr. John Bailey, Standard & Poor’s  
Dr. Chris Chan, University of Hong Kong  
Mr. Gary Cheung, Hong Kong Securities Institute  
Mr. Chew Fook Aun, Chairman of Corporate Governance Committee, HKICPA  
Mr. Paul Chow, Hong Kong Exchanges and Clearing Ltd.  
Mr. Anthony Espina, Hong Kong Stockbrokers Association Ltd.  
Mr. Herbert Hui, The Hong Kong Institute of Directors  
Mr. Gordon Jones, Companies Registry  
Mr. Tim Krause, International Finance Corporation, World Bank Group  
Mr. William Ryback, Hong Kong Monetary Authority  
Ms. Elisabeth Scott, Hong Kong Investment Funds Association  
Prof. Judy Tsui, The Hong Kong Polytechnic University  
Mr. Jimmy Woo, MPF Schemes Authority

Secretary: Mr. Peter Tisman, Director, Specialist Practices, HKICPA

## Review Panel

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Members: **Quality Review**

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Mr. Thaddeus Beczak, Nomura International (HK) Ltd.  
Mr. Clement Chan, Horwath Hong Kong CPA Ltd.  
Mrs. April Chan, The Hong Kong Institute of Company Secretaries  
Mr. Raphael Ding, Moores Rowland Mazars  
Mr. Richard George, Deloitte Touche Tohmatsu  
Mr. Stephen Lee, KPMG  
Mr. Charles Lo, Charles Lo & Co.  
Mr. Nicholas Mayhew, Dah Sing Finance Holdings Ltd.  
Mr. Keith Pogson, Ernst & Young  
Mr. Alan Wong, The Jardine Engineering Corporation Ltd.  
Mr. Thomas Wong, Nexia Charles Mar Fan & Co.

**Compliance Review**

Mr. William Crowe, KPMG  
Mr. Tommy Fung, PricewaterhouseCoopers  
Mr. Ernest Lee, Ernst & Young  
Ms. Ruby Leung, Kennic L H Lui & Co.  
Mr. Daniel Lin, Moores Rowland Mazars  
Ms. Victoria Pau, Grant Thornton  
Mr. Johnny Yuen, Wong Brothers & Co.

Secretary: Ms. Mary Lam, Assistant Director, Specialist Practices, HKICPA

# Supporting Organisations

The HKICPA would like to thank the following supporting organisations of the Best Corporate Governance Disclosure Awards (in alphabetical order):

|  |  |
|--|--|
| Charles Lo & Co.                         | Companies Registry                                     |
| Deloitte Touche Tohmatsu                 | Hong Kong Exchanges and Clearing Ltd.                  |
| Ernst & Young                            | Hong Kong Investment Funds Association                 |
| Grant Thornton                           | Hong Kong Monetary Authority                           |
| Jardine Matheson Ltd.                    | Hong Kong Securities Institute                         |
| Horwath Corporate Advisory Services Ltd. | Hong Kong Stockbrokers Association Ltd.                |
| Horwath Hong Kong CPA Ltd.               | International Finance Corporation,<br>World Bank Group |
| Kennic L H Lui & Co.                     | Mandatory Provident Fund Schemes Authority             |
| KPMG                                     | The Hong Kong Institute of Company Secretaries         |
| Moores Rowland Mazars                    | The Hong Kong Institute of Directors                   |
| Nexia Charles Mar Fan & Co.              |  |
| Organisation Development Ltd.            |  |
| PricewaterhouseCoopers                   |  |
| Standard & Poor's                        |  |
| The Hong Kong Polytechnic University     |  |
| Wong Brothers & Co.                      |  |

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Mr. Jim Wardell, Chairman  
Mr. Nicholas Allen  
Mr. David Cheng  
Mr. Richard George  
Mr. Tommy Tam  
Mr. Peter Tisman  
Ms. Nancy Tse  
  
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