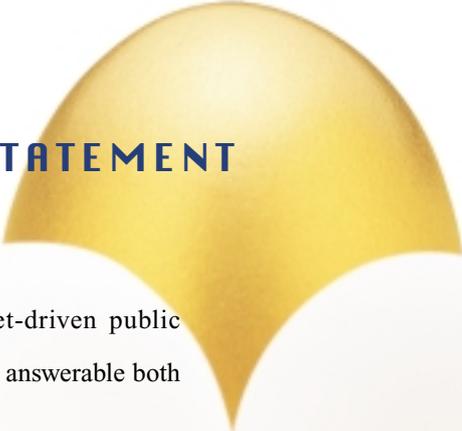


LEE Yeh Kwong, Charles
GBS, JP



Chairman
Hong Kong Exchanges and Clearing Limited



CHAIRMAN'S STATEMENT

(Expressed in Hong Kong dollars)

I am very pleased to present this first annual report of Hong Kong Exchanges and Clearing Limited (HKEx) for the period 1 January to 31 December 2000.

The Company was incorporated on 8 July 1999, and became fully operational on 6 March 2000, when the merger of the stock and futures exchanges and Hong Kong Securities Clearing Company Limited (HKSCC) as subsidiaries of the Company was completed.

A preparatory board of directors oversaw the Company until 3 April 2000 when its first Board of Directors was formed following government appointments and shareholder elections.

Listing on The Stock Exchange of Hong Kong Limited (the Stock Exchange) by way of introduction took place on 27 June 2000, completing three months ahead of schedule the comprehensive reform of the securities and futures markets proposed by the Financial Secretary in his budget speech of 3 March 1999.

In his report, the Chief Executive gives details of the progress of the Company's development and operations.

Integration

The creation and subsequent listing of HKEx have led to the development of a new corporate culture within the Group, based on

performance and service. It has created a market-driven public company with a strong and independent management answerable both to its shareholders as well as to the investing public.

It has also enabled the Group to have a comprehensive oversight and management of the cash and derivatives markets. This strengthens HKEx's ability to ensure the fair and orderly operation of the markets.

Following the merger, integration of staff and operations was very successful. There was a smooth transition and market operations and development were unaffected. Corporate governance has been strengthened and efficiency increased.

I am confident that greater efficiency and reduced costs will be among the long-term benefits of the integration of the stock and futures markets. Looking to the future, HKEx is well placed to reap the benefits accruing to an integrated, focused and commercially driven enterprise.

Financial Results

The accounts have been prepared on a merger accounting basis. For comparison purposes, the previous year's results were compiled by combining the 1999 results of the Stock Exchange, Hong Kong Futures Exchange Limited, and HKSCC, the three companies that comprise HKEx.

HKEx made a profit before taxation of \$985 million in 2000, an increase of 77 per cent over 1999. Profit attributable to shareholders was \$879 million, an increase of 69 per cent. The increase is attributable to a 27 per cent increase in total revenue to \$2,312 million. The Board has recommended payment of a final dividend of \$0.25 per share. Together with the interim dividend of \$0.08 per share, this will bring the total distribution for the year to \$0.33 per share.

Operating expenses increased by 6 per cent to \$1,327 million, compared with \$1,258 million in 1999. The increase was due mainly to increased investment in technology, and additional costs incurred for the listing of the Group and integration of its operations. The shareholders' funds as at the end of 2000 were \$4,639 million.

Meeting Competition

HKEx enjoys no monopoly in the provision of many of its services. However, its structure has given its component exchanges and clearing houses the strength required to meet the increasing competition in the international securities and futures markets.

The competition comes both from other exchanges and from new and alternative trading platforms, created as a result of technological changes and increasing globalisation.

In addition, other financial institutions are offering pre- and post-trading services. HKEx must keep abreast of the latest technological advances if it is to meet the competition.

HKEx has already lowered transaction costs through reduced Transaction Levy and expects costs to fall further when minimum brokerage rates are abolished next year. And we welcome the proposed further reduction in Government Stamp Duty to 0.2 per cent.

Plans are well in hand to integrate our derivatives trading and clearing platforms during 2001-02. HKEx will also introduce new products to meet market and investor needs. These include international benchmark financial products (such as futures and options contracts on well established market indices) and exchange traded funds.

We are exploring the feasibility of providing central back office support facilities to Exchange Participants, and expanding our registrar, nominee and related services. At the same time, we will strengthen our investor information services.

HKEx is committed to seeking alliances and cooperative arrangements with other international exchanges, focusing on providing trading opportunities for investors across the Asian, European and American time zones.



CHAIRMAN'S STATEMENT

Through these alliances we will seek to link Hong Kong to other exchanges in order to provide international investors with a transparent near 24-hour trading platform for the world's global companies, increasing the global liquidity of their stocks and aiding global price discovery.

China

Hong Kong has been China's principal international capital formation and securities trading centre since 1993. There are currently 51 Chinese state-owned enterprises that have listed H shares, and over 60 Red Chips, non-China registered companies with Mainland origins, listed in Hong Kong. As at the end of 2000, taken together they represent 28 per cent of our market capitalisation and 27 per cent of our equity trading volume.

Our planned Beijing office will strengthen our relations with, and services to, Mainland issuers. It will also enable us to carry out promotional and educational activities in China.

We believe that China will have great need for new capital and financial services, especially after it joins the World Trade Organisation. We are confident that Hong Kong will continue to play a leading role in international capital formation for Mainland companies; and its secondary market will continue to provide trading liquidity for their securities.

Market Quality

HKEx is moving towards a disclosure-based system of issuer regulation. With globalisation, the quality of corporate governance of listed companies will become increasingly important.

Good corporate governance increases the fairness, transparency and accountability of a company, and protects the interest of investors, especially minority investors. It also helps to reduce capital formation costs.

In addition to making every effort to strengthen its own corporate governance, HKEx is encouraging listed companies to meet international standards of good corporate governance.

As part of this effort, HKEx proposes, subject to the approval of the Securities and Futures Commission (SFC), to accept International Accounting Standards in company reports and listing applications. This will help to raise investor confidence in Hong Kong listed companies and attract international companies to list in Hong Kong.

Regulatory Rationalisation

HKEx has signed a Memorandum of Understanding with the SFC to clarify the division of responsibility for regulation between the Company and the SFC.

In essence, the memorandum provides that except for business risk management, market surveillance and the enforcement of the trading and clearing rules, the SFC is the primary regulator of Exchange Participants.

The Year Ahead

The year ahead poses challenges arising from economic uncertainty. US economic performance will, as usual, have a great bearing on the rest of the world.

The conventional wisdom is that the first quarter of this year will see little if any economic growth in the US, following a 1.1 per cent growth recorded in the final quarter of last year.

A substantial part of the Group's income is derived from Transaction Levy, clearing and settlement fees, and interest on margin funds. Consequently, its income is very dependent on trading activity in the cash market, as measured in dollar terms; and in the derivatives market as measured in the number of open contracts and volatility.

We experienced bullish conditions in the cash market in the first two quarters of last year, followed by a return to more normal levels in the second half of the year. If this trend continues, we may not reach the same earnings level in 2001 as we did in 2000.

Finally, I acknowledge with a deep sense of gratitude the hard work in an eventful year of my fellow board members, the executive team and all staff members.

Together, they achieved much that would not have been possible without their efforts, and I thank them most sincerely.

LEE Yeh Kwong, Charles

Chairman

13 March 2001

- **The creation and subsequent listing of HKEx have led to the development of a new corporate culture within the group, based on performance and service.**

- **It has created a market-driven public company with a strong and independent management answerable both to its shareholders as well as to the investing public.**

NEW CORPORATE CULTURE

- **It has also enabled the Group to have a comprehensive oversight and management of the cash and derivatives markets. This strengthens HKEx's ability to ensure the fair and orderly operation of the markets.**

- **Looking to the future, HKEx is well placed to reap the benefits accruing to an integrated, focused and commercially driven enterprise.**