

(Expressed in Hong Kong dollars)

The Directors are pleased to present to shareholders their report together with the audited accounts of Hong Kong Exchanges and Clearing Limited (HKEx) and of the Group for the year ended 31 December 2000.

#### **Principal Activities**

HKEx is a recognised exchange controller under the Exchanges and Clearing Houses (Merger) Ordinance (Merger Ordinance). It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses.

Pursuant to two schemes of arrangement each dated 3 September 1999, HKEx on 6 March 2000, became the holding company of The Stock Exchange of Hong Kong Limited (Stock Exchange), Hong Kong Futures Exchange Limited (Futures Exchange), and the indirect holding company of The SEHK Options Clearing House Limited (SEOCH) and HKFE Clearing Corporation Limited (HKCC). Hong Kong Securities Clearing Company Limited (HKSCC) became a wholly-owned subsidiary of HKEx as provided under the Merger Ordinance. The aforesaid five direct and indirect wholly-owned subsidiaries together with their wholly-owned subsidiaries are hereinafter referred to as the Merged Subsidiaries. HKEx, its Merged Subsidiaries and other subsidiaries are collectively referred to as the Group.

The Stock Exchange has the exclusive right under the Stock Exchanges Unification Ordinance to operate and maintain a stock market in Hong Kong and the Futures Exchange is licensed under the Commodities Trading Ordinance to establish and operate a commodity exchange. HKSCC, SEOCH and HKCC are the recognised clearing houses for the purposes of the Securities and Futures (Clearing Houses) Ordinance.

HKEx was listed on the Stock Exchange on 27 June 2000 by way of introduction.

The Group's revenue is derived solely from business activities in Hong Kong. An analysis of the Group's income and contribution to operating profit for the year ended 31 December 2000 is set out in note 2 to the accounts.

#### **Results and Appropriations**

The results of the Group for the year are set out in the consolidated profit and loss account on page 43 of the annual report.

An interim dividend of \$0.08 per share, amounting to a total of about \$83 million was paid to the shareholders during the year.

The Directors recommend the payment of a final dividend of \$0.25 per share to the shareholders on the register of members on 27 April 2001, which together with the interim dividend amounting to a total of about \$343 million, and the retention of the remaining profit for the year.

#### **Reserves**

The aggregate distributable reserve of HKEx amounted to \$3,260 million as at 31 December 2000.

The movements in reserves of the Group and HKEx during the year are set out in notes 23 to 25 to the accounts.

#### **Group Financial Summary**

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 and 5 of the annual report.

#### **Fixed Assets**

Particulars of the movements during the year in fixed assets of the Group and HKEx are set out in note 13 to the accounts.

#### **Share Capital**

Details of the shares issued during the year are set out in note 22 to the accounts.

#### **Subsidiaries**

Particulars of HKEx's subsidiaries as at 31 December 2000 are set out in note 21 to the accounts.

#### **Directors' Emoluments**

Particulars of the Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules) are set out in note 8 to the accounts.



## REPORT OF THE DIRECTORS

### Directors' Service Contract

No Director has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### Directors

The Directors of HKEx during the year and up to the date of this report were:

#### Non-executive Chairman

LEE Yeh Kwong, Charles

#### Executive Director, Chief Executive

KWONG Ki Chi (appointed on 6 March 2000)

#### Non-executive Directors

CHAN Cho Chak, John	
FAN Chor Ho, Paul	(appointed on 3 April 2000)
FRESHWATER, Timothy George	(appointed on 3 April 2000)
HUI, Rafael	(retired on 3 April 2000)
KWOK Chi Piu, Bill	(appointed on 3 April 2000)
LEE Hon Chiu	(retired on 1 January 2001)
LEE Jor Hung, Dannis	
LEE Kwan Ho, Vincent Marshall	(appointed on 3 April 2000)
LEONG Ka Chai	(appointed on 3 April 2000)
LIU Jinbao	(appointed on 3 April 2000)
LO Ka Shui	(appointed on 3 April 2000)
SETO Gin Chung, John	(appointed on 3 April 2000)
STRICKLAND, John Estmond	
YEH Meou Tsun, Geoffrey	(retired on 3 April 2000)
YUE Wai Keung	(appointed on 3 April 2000)

As at 31 December 2000, the Board comprised of fifteen Directors. Messrs LEE Yeh Kwong, Charles, CHAN Cho Chak, John, Timothy George FRESHWATER, LEE Hon Chiu, LEONG Ka Chai, LIU Jinbao, LO Ka Shui and John Estmond STRICKLAND were appointed by the Financial Secretary of the HKSAR (Public Interest Directors) in the interest of the investing public or in the public interest. The Public Interest Directors except Mr LEE Hon Chiu, have a term of service starting from 3 April 2000 for 3 years until the conclusion of annual general meeting 2003. The six Directors other than Public Interest

Directors namely Messrs FAN Chor Ho, Paul, KWOK Chi Piu, Bill, LEE Jor Hung, Dannis, LEE Kwan Ho, Vincent Marshall, SETO Gin Chung, John and YUE Wai Keung, were elected by the shareholders of HKEx at an extraordinary general meeting held on 27 March 2000 with term of service starting from 3 April 2000 for 3 years until the conclusion of the annual general meeting 2003. The Chief Executive of HKEx is an ex-officio member of the Board. The Board recommended Mr LEE Yeh Kwong, Charles to act as non-executive Chairman and his appointment was approved by the Chief Executive of the HKSAR.

All the Directors, other than the Chief Executive of HKEx (who is an ex-officio member of the Board) and Mr LEE Hon Chiu (appointed until 31 December 2000) were appointed for an approximately three-year term expiring at the end of the annual general meeting of HKEx in 2003. No Director will be proposed for re-election at the forthcoming Annual General Meeting to be held on 27 April 2001.

The Securities and Futures Commission (SFC) had on 8 June 2000 confirmed the independence of all non-executive Directors.

### Biography of Directors and Senior Management

#### Directors

##### (a) Non-executive Chairman

**LEE Yeh Kwong, Charles, GBS, JP**, aged 64, is a member of the Executive Council of Hong Kong, the Chairman of the Mandatory Provident Fund Schemes Authority, and one of the founders of the solicitors' firm of Woo, Kwan, Lee & Lo in Hong Kong. Mr Lee is a former member of the Council of the Stock Exchange (1988 to 1994) and a former Chairman of the Stock Exchange (1992 to 1994). He has held a number of Government appointments, including Secretary to the Companies Law Revision Committee (1968 to 1973), member of the Governor's Business Council (1992 to 1997), Hong Kong Affairs Adviser (1993 to 1997), and member of the Selection Committee of the Hong Kong Special Administrative Region of the People's Republic of China in 1996. Mr Lee is also actively involved in numerous community activities, and is a member of the Equal Opportunities Commission of Hong Kong, Chairman of the Council of the Open University of Hong Kong, a member of the Court of the Hong Kong Polytechnic University, a member of the Council of the

Hong Kong University of Science and Technology, and the Vice-Patron of the Community Chest. He is admitted as a solicitor in both Hong Kong and England & Wales, and is also a qualified accountant and chartered secretary. He has over 30 years of experience in the securities industry.

*(b) Executive Director*

**KWONG Ki Chi, GBS**, aged 49, is the Chief Executive of HKEx. Prior to joining HKEx on 6 March 2000, Mr Kwong served in the Government from September 1972 to March 2000. His postings in the Government included the positions of Secretary for Information Technology and Broadcasting (May 1998 to March 2000) and Secretary for the Treasury (April 1995 to April 1998). He holds a Bachelor of Science degree from the University of Hong Kong, a Master of Philosophy degree from the University of Cambridge and a Diploma in Management Studies from the Chinese University of Hong Kong.

*(c) Non-executive Directors*

**CHAN Cho Chak, John, GBS, JP**, aged 57, is the Managing Director of The Kowloon Motor Bus Holdings Limited (KMB). He is a former Chairman of HKSCC, and a non-executive director of Hang Seng Bank Limited, Amway Asia Pacific Limited and Guangdong Investment Limited. Mr Chan holds various community appointments, including being a steward of the Hong Kong Jockey Club, a member of the Council of the University of Hong Kong, and Second Vice President of the Community Chest and Chairman of its Campaign Committee. Prior to joining KMB, Mr Chan served in the Government for two periods, from 1964 to 1978 and from 1980 to 1993. Among the key posts he held over the years were those of Private Secretary to the Governor, Deputy Secretary (General Duties), Director of Information Services, Deputy Chief Secretary, Secretary for Trade and Industry and Secretary for Education and Manpower. He also served as a member of the Executive Council from 1992 to 1993. Mr Chan was Executive Director and General Manager of Sun Hung Kai Finance Company Limited from 1978 to 1980. He was awarded the Gold Bauhinia Star in July 1999. He holds a Bachelor of Arts degree, a Diploma in Management Studies and an Honorary Doctor of Business Administration degree. He has over 7 years of experience in the securities industry.

**FAN Chor Ho, Paul, JP**, aged 59, is the Chairman of Paul Fan Securities Limited and is the present Chairman of the Hong Kong Stockbrokers Association. From 1990 to 1993, he was a member of the Council of the Stock Exchange. Mr Fan was also a member of the Advisory Committee to the SFC from 1993 to 1997. Mr Fan is a director of the Hong Kong Securities Institute and holds many appointments on other Government boards and committees. He is also actively involved in community activities particularly with the Lions Clubs. Mr Fan was awarded with Her Majesty The Queen's Badges of Honour in 1991. Mr Fan graduated from King's College, Hong Kong before starting his career in financial and banking industry. Mr Fan has over 30 years of experience in the securities and futures industry.

**FRESHWATER, Timothy George**, aged 56, is Chairman-Corporate Finance (Asia) of Goldman Sachs (Asia) L.L.C. Before that, he was Chairman of Jardine Fleming (1999), with regional responsibility for the Jardine Fleming group's businesses in 14 countries in the Asia-Pacific region. He was a member of the Hong Kong Takeovers Panel from 1997 to 1999 and is currently a member of the Hong Kong Securities and Futures Appeals Panel. Mr Freshwater is admitted as a solicitor in England & Wales and in Hong Kong. After obtaining Bachelor of Laws and Master of Arts degrees at the University of Cambridge he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years before joining the Jardine Fleming group in 1996. He became a partner in Slaughter and May in 1975 and worked in their Hong Kong office for seven years between 1978 and 1985. He was a member of the Council of the Law Society of Hong Kong from 1981 to 1985 and President of the Law Society of Hong Kong in 1984/5. He returned to London in late 1985 and was head of Slaughter and May's worldwide corporate practice from 1993 until 1996. He has over 30 years of experience in the securities industry.

**KWOK Chi Piu, Bill**, aged 48, is the Managing Director of Wocom Holdings Limited. He is currently the Chairman of the Hong Kong Securities Institute and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council and the Professional Advisory Board of the Asian Institute of International Financial Law at the University of Hong Kong. He is also a director of Wing On International Holdings Limited and Wing On Company International Limited. He was a director of the Futures Exchange from 1991 to 2000 and a Vice Chairman from 1997 to 2000. Mr Kwok



## REPORT OF THE DIRECTORS

holds a Bachelor of Science (Chemistry) degree and a Bachelor of Arts (Economics) degree from Stanford University as well as a Doctor of Philosophy (Biochemistry) degree from the University of Chicago. He has over 16 years of experience in the securities and futures industry.

**LEE Hon Chiu, GBS, JP**, aged 72, is a member of the Process Review Panel for the SFC. He is also the Chairman of Hysan Development Company Limited and a non-executive director of Cathay Pacific Airways Limited, China Unicom Limited, Hang Seng Bank Limited, The Hong Kong & China Gas Company Limited and a number of other Hong Kong companies. Mr Lee retired from the position of Chairman of the Stock Exchange and President of the International Federation of Stock Exchanges on 31 December 2000. Mr Lee holds various Government committee and community appointments, including being the Chairman of the Standing Committee on Directorate / Judicial Salaries and Conditions of Service appointed by the Government, the Chairman of the Council of the Chinese University of Hong Kong and a member of the National Committee of the Chinese People's Political Consultative Conference. Mr Lee holds a Bachelor of Science degree in Electrical Engineering from the Massachusetts Institute of Technology and a Master of Science degree in Electronics from Stanford University. He has over 10 years of experience in the securities industry. He retired of HKEx on 1 January 2001.

**LEE Jor Hung, Dannis, BBS**, aged 46, is the Chairman of DL Brokerage Limited. He is a member of the Advisory Committee and Appeals Panel to the SFC. Mr Lee is a Permanent Honorable President of the Hong Kong Stockbrokers Association and was the Chairman of that Association from 1997 to 1999. Mr Lee is a former member of the Council of the Stock Exchange (1991 to 1997 and Vice Chairman 1994/5) and a former director of HKSCC (1992 to 1997 and Vice Chairman 1995 to 1997). Mr Lee holds a Bachelor degree in Business Administration and Commerce and a Master Degree in Business Administration, and a fellow of the Hong Kong Institute of Directors. He has over 18 years experience in the securities industry.

**LEE Kwan Ho, Vincent Marshall**, aged 45, is the Managing Director of the Tung Tai Group of Companies (securities and finance companies) and a director of the Institute of Securities Dealers Limited. He has extensive experience in banking, corporate and real

estate transactions in Hong Kong, mainland China, the United States and Canada. While engaged as a senior banker with the HSBC group in Hong Kong and Vancouver, and as a Certified Public Accountant with Coopers and Lybrand in Los Angeles and Boston, Mr Lee executed a wide variety of investment transactions, including corporate acquisitions, financing, divestitures, real estate transactions, share offerings and commodities trading. He is actively involved in numerous community activities, including being a Founding Member (as well as past Governor) of the Canadian International School Foundation Limited. He graduated Magna Cum Laude in Accounting and Finance from the University of Southern California and received a Master degree in Economics from the London School of Economics and Political Science and has received numerous academic awards and recognition. He has over 20 years of experience in the securities and futures industry.

**LEONG Ka Chai, JP**, aged 51, has 18 years of experience in the securities and derivatives business. He is a dealing director of Roctec Securities Company Limited and Roctec Futures Trading Company Limited. Mr Leong was a director of the Futures Exchange from 1989 to 2000 and was the Chairman of the Futures Exchange from 1992 to 1995. He is also a member of various advisory committees, including the Advisory Committee of the SFC, the department of finance of the City University of Hong Kong and the department of finance of the Baptist University, the finance committee of the Queen Elizabeth Foundation and the professional education committee of the Hong Kong Securities Institute.

**Dr LIU Jinbao**, aged 48, is the Vice Chairman of Bank of China (BOC), Chief Executive of the Bank of China Hong Kong-Macau Regional Office and General Manager of the Bank of China, Hong Kong Branch. He was previously General Manager of the BOC Shanghai Branch and the BOC Shanghai Trust and Consultancy Company. In serving for the Hong Kong financial sector, Dr Liu was the Chairman of the Hong Kong Association of Banks in 1999 and is currently Vice Chairman of the Association. He is a member of the Hong Kong Exchange Fund Advisory Committee and a member of the HKMA Banking Advisory Committee. Dr Liu is also a director of Hong Kong Note Printing Limited, Chairman of the Hong Kong Interbank Clearing Limited and Chairman of the Hong Kong Chinese Enterprise Association. Dr Liu is involved in other public and community duties such as Member of the Commission on Strategic

Development of the Hong Kong Special Administrative Region, Vice President of the Chinese Red Cross Foundation and member of the Hong Kong Red Cross Advisory Board. He has over 25 years of experience in the banking and finance industries.

**LO Ka Shui, JP**, aged 54, is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is presently the Chairman of the GEM Listing Committee and was Chairman of the Listing Committee of the Stock Exchange from 1992-1996. He is the Non-Executive Chairman of Panda-Recruit Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited, City e-Solutions Limited, The HSBC China Fund Limited, Shanghai Industrial Holdings Limited and Phoenix Satellite Television Holdings Limited. He is also actively involved in community activities, including being a Vice President of The Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Center for Economic Research, a member of the Long Term Housing Strategy Advisory Committee, a member of the Council of Advisors on Innovation and Technology and Chairman of the Hospital Authority. Dr Lo holds a Bachelor of Science (Biophysics) degree from McGill University and a M.D. from Cornell University, certified in Cardiology. He has over 20 years of experience in the financial and securities industry.

**SETO Gin Chung, John**, aged 52, retired as Chief Executive of HSBC Broking Services (Asia) Limited as of 1 March 2001. From 1997 to 2000, Mr Seto was the first Vice Chairman of the Stock Exchange and a director of HKSCC. He was also a member of the Council of the Stock Exchange from 1994 to 2000. Mr Seto holds a Master of Business Administration degree from New York University. He has over 25 years of experience in the securities and futures industry.

**STRICKLAND, John Estmond, GBS, JP**, aged 61, is a former Chairman of The Hongkong and Shanghai Banking Corporation Limited and has served as a director of the Mass Transit Railway Corporation, HKSCC and the Airport Authority. Mr Strickland was awarded the Gold Bauhinia Star in 1998. He is active in numerous community organisations and is currently the President of Hong Kong Outward Bound Trust, a member of the Council of the University of Hong Kong and Chairman of the Salvation Army Advisory Board. He has been awarded honorary Doctorate degrees from City University and Hong Kong Polytechnic University.

**YUE Wai Keung**, aged 48, is a dealing director of Luen Fat Securities Company Limited as well as a director of numerous other privately held securities or financial companies. He was a member of the Council of the Stock Exchange from 1993 to 2000 and the Deputy Chairman of HKSCC from 1997 to 2000. Mr Yue was also a member of the Departmental Advisory Board of Guangdong Academy of Social Science in 1997. Mr Yue is a committee member of the Hong Kong Stockbrokers Association and has over 28 years of experience in the securities and futures industry.

#### Senior Management

**CHEUNG Kwok Wai, David**, aged 51, is the Chief Financial Officer of HKEx. Prior to joining HKEx in April, 2000, he was the Chief Financial Officer of Standard Chartered Bank, Hong Kong and North East Asia. He is a member of the American Institute of Certified Public Accountants. Mr Cheung has over 20 years of international experience in the banking and securities industries, including postings as Vice President, First Interstate Bank, London and Controller, Standard Chartered Bank, New York. He holds a Bachelor of Science (Accounting) degree and a Master of Business Administration (Finance) degree from the University of Southern California.

**FOK Kwong Man, Lawrence**, aged 51, is the Deputy Chief Operating Officer of HKEx and is the Chief Executive of the Stock Exchange. Mr Fok joined the Stock Exchange in February 1992 as an Assistant Director of the Listing Division. He was appointed Executive Director of the Listing Division in February, 1997 and Senior Executive Director of its Regulatory Affairs Group in November, 1998. Mr Fok has over 19 years of experience in financial services and securities regulatory work. Before joining the Stock Exchange he worked for the SFC, the Office of the Commissioner for Securities and Commodities Trading of the Hong Kong Government and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, mainland China trade and investment management. He holds a Bachelor of Science in Engineering degree from the University of Hong Kong, a Master of Business Administration degree from Columbia University, and a Master of Arts (Economics) degree and a Master of Science (Statistics) degree from Stanford University.

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**GREDE, Frederick John**, aged 48, is the Chief Operating Officer of HKEx and is the Chief Executive of the Futures Exchange. Before joining HKEx in April, 2000 he was the Executive Vice President of Planning and Operations at the Chicago Board of Trade (CBOT). He joined CBOT in 1974 and during his term of employment held various executive positions in both the Administration and Planning Division(s) and the Office of Investigations and Audits. As part of his fifteen years of executive experience at CBOT he led the development of various business and technology strategies and initiatives, such as the EUREX-CBOT joint venture, CBOT's alliance with LIFFE and the start up and development of exchanges in Poland, Hungary and Russia. He was also a Director of the Illinois State Chamber of Commerce from 1992 to 1998, and a member of the Business Conduct Committee of the National Futures Association from 1993 to 1996. He holds a Bachelor of Science degree in Finance from the University of Illinois, a Master of Business Administration degree from the University of Chicago Graduate School of Business and a Juris Doctor degree from DePaul University School of Law.

**REISCH, Walter Anton**, aged 54, is Head of the Clearing Business Unit of HKEx and Chief Executive of HKSCC. He joined HKEx on 9 January 2001, after several years of consultancy of financial markets around the world. He was with London Clearing House (formerly ICCH) for 18 years where he held senior management and board positions in Sydney and London. He was subsequently with SunGard Futures in the capacity of Managing Director and with Austraclear in the position of Chief Operating Officer. He has some 27 years of experience in developing and operating exchange trading systems, clearing services and back-office services for a number of financial markets.

### Company Secretary

**MAU Kam Shing, Joseph**, aged 42, is the Company Secretary of HKEx. Prior to joining the Group, he was the company secretary of a listed company in Hong Kong for over 12 years. Mr Mau is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Society of Accountants. He holds a Master of Science Degree in Business Administration from the University of Bath.

### Directors' Interests in Shares and Options

#### (i) Shares

As at 31 December 2000, the Directors and their respective associates had interests in the shares of HKEx as recorded in the register maintained by HKEx pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance (SDI Ordinance) as follows:-

Name of Director	Number of shares held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
FAN Chor Ho, Paul	-	-	2,187,000 (note 1)	-	2,187,000
LEE Jor Hung, Dannis	-	-	1,610,000 (note 2)	-	1,610,000

Notes:

- 2,187,000 shares were owned by Compu-Chart Investment Adviser Limited, a private company in which Mr FAN Chor Ho, Paul holds a 99.99 per cent interest.
- 1,610,000 shares were owned by DL Brokerage Limited, a private company beneficially wholly owned by Mr LEE Jor Hung, Dannis.

Other than the holdings disclosed above, no interests were held or deemed or taken to be held (under the SDI Ordinance) by any Director or Chief Executive of HKEx or their respective associates in any equity or debt securities of HKEx or any of its associated corporations which were required to be notified to HKEx and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein.

#### (ii) Options

On 31 May 2000, HKEx's Pre-Listing and Post-Listing Share Option Schemes (Schemes) were approved by the shareholders under which the Directors of HKEx may, at their discretion, offer any employee (including any Director) of HKEx or of any of its wholly-owned subsidiary options to subscribe for shares in HKEx subject to the terms and conditions stipulated in the Schemes. The share options granted under the Pre-Listing Scheme can be exercised in tranches of

25 per cent from 6 March 2002, reaching 100 per cent from 6 March 2005 and in any event shall end not later than 10 years from the date on which the option was granted and accepted, subject to the provisions for early exercise and/or termination contained in that Scheme. No share options have been granted under the Post-Listing Share Option Scheme.

A share option granted by HKEx to a Director of HKEx to subscribe for shares of HKEx, was outstanding and not yet exercised:–

Name of Director	Date of option granted	Exercise Price per share	Exercisable period	Number of shares issuable under the option at 1.1.2000	Number of shares	
					issuable under the option from 1.1.2000 to 31.12.2000	issuable under the share option at 31.12.2000
KWONG Ki Chi	20 June 2000	\$7.52	6 March 2002 to 30 May 2010	–	1,454,126	1,454,126

Apart from the aforesaid, at no time during the year was HKEx, or its subsidiaries, a party to any arrangement to enable the Directors of HKEx to acquire benefits by means of the acquisition of shares in, or debentures of, HKEx or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any interest in, or had been granted, or exercised, any right to subscribe for the securities and options of HKEx and its associated corporation within the meaning of the SDI Ordinance, or had exercised any such rights.

#### **Directors' Interests in Contracts of Significance**

No contracts of significance in relation to the Group's business to which HKEx or any of its subsidiaries was a party and in which a Director of HKEx had a material interest, whether directly or indirectly subsisted at the year end or at any time during the year.

#### **Connected Transactions**

The SFC granted a waiver to HKEx on 21 June 2000 from strict compliance with the connected transaction requirements under the Listing Rules applicable to the connected transactions on the basis that:–

- (i) the transactions being:–
  - (a) in the ordinary and usual course of business of the relevant Group company and conducted on an arm's length basis;

- (b) in respect of transactions other than Buy-in Transactions, in accordance with the rules and regulations of the relevant Group company governing such transactions and where the rules and regulations do not govern those transactions in full, in accordance with the standard terms and conditions of the relevant Group company relating to such transactions;
  - (c) in respect of transactions which are Buy-in Transactions, in accordance with the standard terms and conditions of HKSCC applicable generally to all Buy-in Brokers in such transactions for and on behalf of HKSCC and at the standard commission rate payable by HKSCC in respect of all such Buy-in Transactions; and
  - (d) in the opinion of the Directors, fair and reasonable so far as the shareholders of HKEx are concerned;
- (ii) details of the connected transactions (except for Buy-in Transactions) as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in HKEx's subsequent annual reports, provided however that specific details of the dates of the transactions and the total consideration need not be disclosed but instead there should be disclosure of the period during which the transactions are conducted;
  - (iii) details of the connected transactions (which are Buy-in Transactions) as set out in Rule 14.25(1)(A) to (D) of the Listing Rules shall be disclosed in HKEx's subsequent annual reports, provided however that specific details of the dates of the transactions need not be disclosed but instead there should be disclosure of the period during which the transactions are conducted;
  - (iv) at least two of the independent non-executive Directors shall review annually the connected transactions and confirm in HKEx's next following annual report that they were conducted in the manner as stated in (i) condition above; and
  - (v) the Auditors of HKEx shall review annually the connected transactions and provide the Directors with a letter confirming that:
    - (a) the connected transactions have received approval from the Directors; and



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- (b) the connected transactions are in accordance with the relevant rules and regulations of the relevant Group company governing fees for the applicable facilities, services or goods provided by, or to, the Group and where the rules and regulations do not govern the transaction in full, are in accordance with the standard terms and conditions of the relevant Group company relating to the applicable facilities, services or goods provided by, or to, the Group.

During the year ended 31 December 2000, the Group had the following connected transactions, details of which are set out below:—

- (a) For the year ended 31 December 2000, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the use of (i) the facilities provided by HKEx or its subsidiaries for the trading, clearing and/or settlement of securities and futures products and transactions and (ii) all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:—
- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions referred to in (a) entered into by Paul Fan Securities Limited, an Exchange Participant in which Mr Fan has a 99.99 per cent interest.
  - (2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions referred to in (a) entered into by DL Brokerage Limited which is an Exchange Participant beneficially wholly owned by Mr Lee.
  - (3) Mr BOKHARY Syed Bagh Ali Shah, Ex-Council Member of the Stock Exchange, was interested in the transactions referred to in (a) entered into by Bokhary Securities Limited, an Exchange Participant in which Mr Bokhary has a 50 per cent interest.
  - (4) Mr CHEUNG Wah Fung, Christopher, Ex-Council Member of the Stock Exchange and Ex-Director of HKSCC, was interested in the transactions referred to in (a) entered into by Christfund Securities Limited, an Exchange Participant in which Mr Cheung has a 99.9 per cent interest.

- (5) Mrs CHU Ho Miu Hing, Ex-Council Member of the Stock Exchange and Ex-Director of HKSCC, was interested in the transactions referred to in (a) entered into by Good Harvest Securities Company Limited, an Exchange Participant in which Mrs Chu has a 40 per cent interest.
- (6) Mr TSANG Chi Suen, Trini, Ex-Council Member of the Stock Exchange, was interested in the transactions referred to in (a) entered into by Grand Onward Securities Limited, an Exchange Participant in which Mr Tsang has a 85 per cent interest.

All the above connected transactions were entered into in the ordinary course of business and on normal commercial terms.

- (b) For the year ended 31 December 2000, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with the listing or proposed listing of securities on a market maintained by HKEx or its subsidiaries and all services offered by HKEx or its subsidiaries which are ancillary, incidental or otherwise related to the foregoing:—
- (1) Dr LO Ka Shui, Director of HKEx and Ex-Council Member of the Stock Exchange, was interested in the transactions referred to in (b) entered into by Great Eagle Holdings Limited, a company listed on the Stock Exchange in which Dr Lo and his family members together holding directly or indirectly more than 60 per cent interest.
- The above connected transactions were entered into in the ordinary course of business and on normal commercial terms.
- (c) For the year ended 31 December 2000, transactions between the following connected persons and HKEx or its subsidiaries arising from or in connection with HKSCC's arrangement on behalf of a Clearing Participant of a Buy-in Transaction:—
- (1) Mr FAN Chor Ho, Paul, a Director of HKEx, was interested in the transactions referred to in (c) entered into by Paul Fan Securities Limited in which Mr Fan has a 99.99 per cent interest.

For the year ended 31 December 2000, the total consideration of such transactions, which were transacted on normal commercial terms was \$26,055,413.

- (2) Mr LEE Jor Hung, Dannis, a Director of HKEx, was interested in the transactions referred to in (c) entered into by DL Brokerage Limited beneficially wholly owned by Mr Lee.

For the year ended 31 December 2000, the total consideration of such transactions, which were transacted on normal commercial terms was \$3,106,106.

- (3) Mr BOKHARY Syed Bagh Ali Shah, Ex-Council Member of the Stock Exchange, was interested in the transactions referred to in (c) above entered into by Bokhary Securities Limited in which Mr Bokhary has a 50 per cent interest.

For the year ended 31 December 2000, the total consideration of such transactions, which were transacted on normal commercial terms was \$2,484,930.

- (4) Mrs CHU Ho Miu Hing, Ex-Council Member of the Stock Exchange and Ex-Director of HKSCC, was interested in the transactions referred to in (c) above entered into by Good Harvest Securities Company Limited in which Mrs Chu has a 40 per cent interest.

For the year ended 31 December 2000, the total consideration of such transactions, which were transacted on normal commercial terms was \$651,965.

Two independent non-executive Directors who have not entered into any connected transactions as defined under the waiver from the SFC, have reviewed and confirmed that the connected transactions as set out above had been entered into by the Group in accordance with the waiver conditions granted by the SFC as stated in (i), (ii) and (iii) above.

The Auditors of HKEx have also confirmed that the connected transactions as set out above had been conducted in the manner as stated in (v) above.

#### **Substantial Shareholder**

The Directors are not aware of any party who was directly or indirectly interested in 10 per cent or more of the issued share capital of HKEx as at 31 December 2000 as recorded in the register required to be kept by HKEx under Section 16(1) of the SDI Ordinance.

#### **Minority Controller**

Under the Merger Ordinance, no person shall be or become a Minority Controller, i.e. a person who either alone or with any associate or associates, is entitled to exercise, or control the exercise of 5 per cent or more of the voting power at any general meeting of the recognised exchange controller, except with the approval in writing of the SFC after consultation with the Financial Secretary of the HKSAR.

As of 13 March 2001, three CCASS Participants are holding approximately 18.9 per cent, 11.8 per cent and 5.3 per cent respectively of HKEx's issued share capital. The CCASS Participants in question have informed HKEx that they have applied to the SFC for approval as Minority Controllers of HKEx on the basis that the shares are held in custody for their clients, and that the matter is under consideration.

#### **Major Customers and Suppliers**

Contracts with the HKEx's five largest suppliers combined by value which are not of a capital nature, contributed to less than 30 per cent in value of supplies purchased during the year ended 31 December 2000. HKEx's five largest customers combined by value contributed to less than 30 per cent in value of the income during the year ended 31 December 2000.

#### **Purchase, Sale or Redemption of HKEx's Listed Securities**

During the year ended 31 December 2000, HKEx had not redeemed and neither HKEx nor any of its subsidiaries had purchased or sold any of HKEx's listed securities.

#### **Corporate Governance**

The current Board comprises six Directors returned by the shareholders of HKEx, seven Government appointees (Public Interest Directors) representing public and market interests and the Chief Executive of HKEx who is an ex-officio member. The Board shapes policies on major strategic, financial, regulatory, risk management, commercial and operational issues. The Chief Executive of HKEx is responsible to the Board for the management of the HKEx's business.



## REPORT OF THE DIRECTORS

The Board is scheduled to meet on a monthly basis and additional Board meetings will be held, if and when required. It deals with strategic and policy issues and approves corporate plans, budgets, and monitors the performance of the management. In order to maintain a good, solid and sensible framework of corporate governance, the Board has set up four committees namely, executive committee, audit committee, risk management committee and investment advisory committee.

### **Executive Committee**

The Executive Committee meets regularly, normally twice a month to serve as an executive arm of the Board, to formulate policies for consideration of the Board and to carry out and implement the policies laid down by the Board. The Chairman of the Committee reports to the Board on the work, significant decisions, findings and recommendations of the Committee since the last Board meeting. Members of the Executive Committee are set out on page 7 of the annual report.

### **Audit Committee**

The Audit Committee of the Board was established on 12 April 2000 and members are set out on page 7 of the annual report. It reviews with management the accounting principles and practices adopted by the Group, and discusses auditing, internal control systems and financial reporting matters.

The Audit Committee is scheduled to meet at least four times a year to review audit reports, status of the Group's audits, internal controls and the interim and the final accounts of the Group prior to recommending them to the Board for approval.

### **Risk Management Committee**

The Risk Management Committee was established under Section 9 of the Merger Ordinance on 3 March 2000 to formulate policies on risk management matters relating to the activities of HKEx and the exchanges and clearing houses of which HKEx is the controller. Members of the Risk Management Committee are set out on page 7 of the annual report.

### **Investment Advisory Committee**

The Investment Advisory Committee was established to provide market expertise and advice to the Board on investments of HKEx, including advice on investment policies, asset allocation and selection of fund managers and custodians. Members of the Investment Advisory Committee are set out on page 7 of the annual report.

### **Group Internal Audit**

HKEx has a Group Internal Audit Functional Unit which reviews both manual and computerised systems and procedures in all major financial and operational activities. This Unit is headed by the Head of Group Internal Audit who is directly responsible to the Chairman of the Board and submits regular reports to the Audit Committee.

### **Guidelines on Conduct**

HKEx and its major subsidiaries are public bodies listed in the Schedules of the Prevention of Bribery Ordinance. All employees of HKEx including Directors and committee members are considered public servants under the Ordinance.

### **Compliance with the Code of Best Practice of the Listing Rules**

HKEx has complied with Appendix 14 of the Listing Rules during the year.

### **Provident Fund Schemes**

Particulars of the provident fund schemes of the Group are set out in note 10 to the accounts.

### **Charitable Donations**

Charitable donations made by the Group during the year amounted to \$1,000,000.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of HKEx.

On behalf of the Board of Directors

**LEE Yeh Kwong, Charles**

*Chairman*

13 March 2001