

CORPORATE AND SOCIAL RESPONSIBILITY

As a publicly-listed company, HKEx has increased responsibilities to safeguard the interests of its stakeholders, particularly Shareholders, employees, and customers, wider obligations to support the community, and greater commitment to preserving the environment. During 2004, HKEx made positive progress towards achieving its objectives in this regard.

OUR SHAREHOLDERS: THE BEST POSSIBLE CHOICE

Other than striving for an increase in Shareholder value, HKEx also provides clear and transparent corporate information to Shareholders. A true and fair report on its financial position and operating performance is presented to Shareholders in the quarterly, interim, and annual reports which are posted on HKEx's corporate website. In addition, other corporate communications to Shareholders, such as circulars, notices, and the newsletter – *Exchange*, are available on HKEx's corporate website along with the Memorandum & Articles of Association, information on HKEx's corporate governance practices, the poll voting results, minutes of annual general meetings and updates on the Group's affairs. The objective is to communicate with Shareholders in an open, honest, and prompt manner.

Other initiatives to promote good investor relations have included the creation of the Investor Relations Corner on the HKEx website and the establishment of the Investor Services Department in May 2004 to focus on managing investor relations. We recognise the importance of continuous improvement in promoting transparency and fostering good relationships with investors. Comments and suggestions are welcome and can be addressed to the Investor Services Department or the Company Secretary.

OUR EMPLOYEES: AN EMPLOYER OF CHOICE

In 2004, HKEx underwent organisational restructuring and cost rationalisation. The staff team as at the end of 2004 comprised 791 employees, including 16 temporary staff (2003: 803 employees, including 38 temporary staff). During the year, 82 employees left the Group, resulting in a turnover rate of 10.9 per cent (2003: 39 employees left and the turnover rate was 5 per cent). Employees' rewards such as bonus and share options are linked to individual performance.

We recognise that our competitiveness is dependent on employing the best people and providing them with appropriate training. To achieve this, it is the policy of the Group to create a working and learning environment which cares about the welfare and rights of employees, provides equal opportunity, and develops the skills and knowledge of employees.

Welfare and Rights of Employees

HKEx is committed to achieving a high standard of occupational safety and health through assigning responsible persons to attend risk assessment training, identifying any actual and potential hazards and risks to each individual, monitoring and reviewing the safety management system, performing regular audits on safety and health performance, and maintaining a complete set of emergency procedures. Training courses, such as the Certificate of Competence in Manual Handling and First Aid, have been organised from time to time to equip employees with the knowledge and skills to perform their duties in a safe manner. The Occupational Safety and Health Policy is included in the Human Resources Manual, which has been issued to employees and posted on the HKEx website.

In addition, HKEx offers all employees a comprehensive range of benefits, such as the provident fund, medical and dental insurance, life and personal accident insurance, employee compensation, and business travel insurance.

It is important that HKEx's objectives and vision are clearly articulated and completely understood and accepted by the employees. HKEx therefore continues to encourage communication among all levels of the organisation in an effort to foster staff commitment to the Group. The Chief Executive regularly delivers and explains key Group policies and developments to executives at the Monthly Executive Forum and the Quarterly Presentation. Presentations from the Forums and Briefings are posted on HKEx's Intranet for the staff's reference.

Employees are invited to participate in various task groups and committees to enhance the communication and teamwork at all levels and among different Divisions/Departments. For example, in 2004, a Career Development & Training Committee comprising employees of different Divisions/Departments and different grades was formed to review and advise the Chief Executive and the Division/Department Heads on the career development and training policies of the Group. The Provident Fund Committee, comprised of staff representatives, was set up in 2004 to gauge the views of employees on the operation of HKEx's provident fund.

The Staff Social Club has continued to convey the views of employees in respect of social welfare to the senior management and organise a wide range of activities to help increase employees' sense of belonging. The activities have included the annual dinner party, visits and outings, classes on topics such as cooking and skin care, and health talks. HKEx is delighted that, as a result of the strong teamwork of employees, it won the championship in both the Soccer Public Organisations Challenge League and the Supervisory Cup Basketball Competition in 2004.

HKEx promotes fairness, integrity, respect, and teamwork, which are keys to the success of the Group. To assess employee satisfaction and to understand what employees think of their work and the organisation, staff were invited to participate in the second employee opinion survey, which was conducted in the third quarter 2004. The survey attracted an encouraging response rate of about 80 per cent and very comprehensive feedback. The results were analysed thoroughly, and appropriate actions are being taken to further improve the working conditions and enhance the performance culture of HKEx to ensure that it continues to be an employer of choice.

Equal Opportunity and Code of Ethics for Employees

HKEx adopts the Code of Practice on Equal Opportunities recommended by the Equal Opportunities Commission in Hong Kong. It is the Group's policy to eliminate discrimination, harassment, and vilification in employment, to promote equal employment opportunities, and to adopt good management practices. An Equal Opportunity Policy, which includes procedures for handling grievances, is set out in the Human Resources Manual. All employee complaints and grievances, alerts of wrongdoings, and recommendations on improvements will be channelled to the Chief Executive who will make a decision to resolve the matter. In cases involving complaints against the Chief Executive, or appeals against the Chief Executive's decisions, employees can contact the Chairman directly.

As a designated public body listed in the Schedules of the Prevention of Bribery Ordinance and the frontline regulator of companies listed in Hong Kong, HKEx's employees are public servants and therefore subject to the said Ordinance. Employees also are required to comply with the Code of Conduct set out in the Human Resources Manual, which governs mainly securities dealings, soliciting and accepting advantages, loans to and from business associates, conflict of interest, and confidentiality. To ensure full understanding of the requirements, briefings on integrity and corruption prevention are periodically arranged jointly with the Independent Commission Against Corruption for employees.

Skills and Knowledge of Employees

It is HKEx's responsibility to provide appropriate training to help staff identify and meet development needs. Apart from providing education sponsorship, different kinds of training programmes are prepared for employees to keep them up to date on the market trends and to maintain and enhance their technical and professional knowledge. These programmes include in-house training on communication skills, customer service, business etiquette, accounting standards, project management, and Putonghua, as well as external training. In 2004, HKEx sponsored 225 courses and organised 42 in-house programmes for the employees. Professional staff members are fully reimbursed for professional development courses organised by recognised programme providers.

Promotion is merit-based. The promotion policy has been set out clearly in the Human Resources Manual. Moreover, a systematic performance development process is in place to help employees meet their performance objectives and to align each individual's objectives with HKEx's objectives. In 2004, the performance appraisal process was refined to make it more user-friendly and focused more on the area of training and development.

It is HKEx's objective to encourage and foster a learning culture within the Group. A learning culture combined with the career development and strategic deployment opportunities HKEx offers staff at all levels will help ensure smooth succession when positions must be filled and the continued effective performance of the organisation.

OUR CUSTOMERS: THE BEST SERVICE PROVIDER

As an exchange controller and a listed company, EPs, listed issuers, the investing public and all the other market participants and users, including sponsors and intermediaries, are HKEx's customers.

In 2004, the Group further expanded and improved its services. For details, please refer to the Management Discussion and Analysis Section on pages 28 to 62. Moreover, for the benefit of investors, HKEx provides publications on its products and services from time to time. In 2004, the Group published leaflets on equities, trading securities in Hong Kong, the enhanced Investor Account in CCASS, PRiME and the derivatives market, and stock options. It also published booklets on H-shares Index Futures and Options, listing in Hong Kong, and changes to the Listing Rules. To further improve services to participants, a series of enhancements will be launched gradually in 2005.

HKEx treats its customers as valued partners and is always committed to seeking their views on issues which may have implications on the market. Meetings of the various consultative panels are held from time to time to collect views of market participants in respect of proposals related to the markets. In 2004, HKEx issued the Draft Proposed Amendments to the Listing Rules Relating to the Regulation of Sponsors and Independent Financial Advisors, the Exposure of the Draft Code on Corporate Governance Practices and Corporate Governance Report, and the Consultation Paper on the Reduction of Minimum Spreads to invite market input and comments. Appropriate improvement actions have been taken in response to the invaluable comments received.

To better understand the needs and expectations of its customers, HKEx conducted and released the results of its latest Cash Market Transaction Survey, Omnibus Retail Investor Survey, Secondary Market Survey, and Derivatives Market Transaction Survey in 2004. The highly valued feedback was analysed with a view to making improvements to satisfy customers' needs.

OUR COMMUNITY AND ENVIRONMENT: A SOCIALLY RESPONSIBLE ORGANISATION

As well as being responsible to its customers through its financial service offerings, HKEx believes that it has a responsibility to the wider society in which it operates. This includes supporting employees in their individual and collective efforts to contribute to the community. In 2004, HKEx participated in the Green Day and the Dress Casual Day to raise funds for the Community Chest of Hong Kong, and it held its yearly blood donation activities. In addition, employees responded enthusiastically in December 2004 to the donation campaign to assist the people affected by the earthquake and tsunami in South Asia. Our employees have also enthusiastically supported the activities organised by charitable organisations, such as the Mooncakes Collection Campaign and Chinese New Year's Presents Collection Campaign organised by the St. James Settlement.

HKEx has operated the Stock Code Balloting Scheme with the Community Chest of Hong Kong since 1999. The Scheme raised approximately \$21 million, which accounted for about 13 per cent of the total donations received by the Community Chest for its financial year 2003/2004. HKEx raised a total of about \$28 million from the Scheme in 2004.

In 2004, HKEx sponsored the 2004-2005 China-Hong Kong Investment Simulation Competition jointly organised by Hong Kong and Mainland universities. The participants comprised more than 13,000 students from 133 universities in Hong Kong and various provinces on the Mainland. HKEx allowed the use of HKEx price data by the university students at no charge for the purpose of the competition. The event helped the university students familiarise themselves with the securities markets in Hong Kong and on the Mainland.

To encourage greater public awareness of the importance of corporate governance, HKEx sponsored the Best Annual Reports Awards 2004 organised by the Hong Kong Management Association.

Although HKEx does not operate an environmentally sensitive business, it recognises its duty to minimise its environmental impact. The Group has identified opportunities to reduce and recycle the resources it consumes, and it has adopted key environmental management procedures, including the recycling of paper and IT equipment, and the use of energy-saving office equipment. Moreover, HKEx has continued to review its e-submission system to encourage listed issuers to disseminate information electronically. During 2004, HKEx published 78,030 issuers' disclosures on the HKEx and GEM websites, about an 18 per cent increase over the previous year. There was also increased use of the websites for accessing issuers' information, with page views rising from 68,602,679 in 2003 to 152,244,153 in 2004, a gain of 122 per cent. On Disclosure of Interests as required by the SFO, the total number of disclosure notices published on the HKEx website increased to 31,300 from 27,494 in 2003. About 16 per cent of the notices were filed through the Internet. Page views on Disclosure of Interests information increased by 87 per cent, from 6,103,040 in 2003 to 11,424,354 in 2004.

On behalf of the Board of Directors

MAU Kam Shing, Joseph

Company Secretary

Hong Kong, 28 February 2005