

# Chairman's Statement

---

**Strategy**

---

(Financial figures are expressed in Hong Kong dollars)

I am very pleased to present this annual report of Hong Kong Exchanges and Clearing Limited (HKEx) for the period 1 January to 31 December 2001.

The Chief Executive's Report provides details of the company's operations and development.

company has a profitable business model and it has developed a corporate culture based on performance and service.

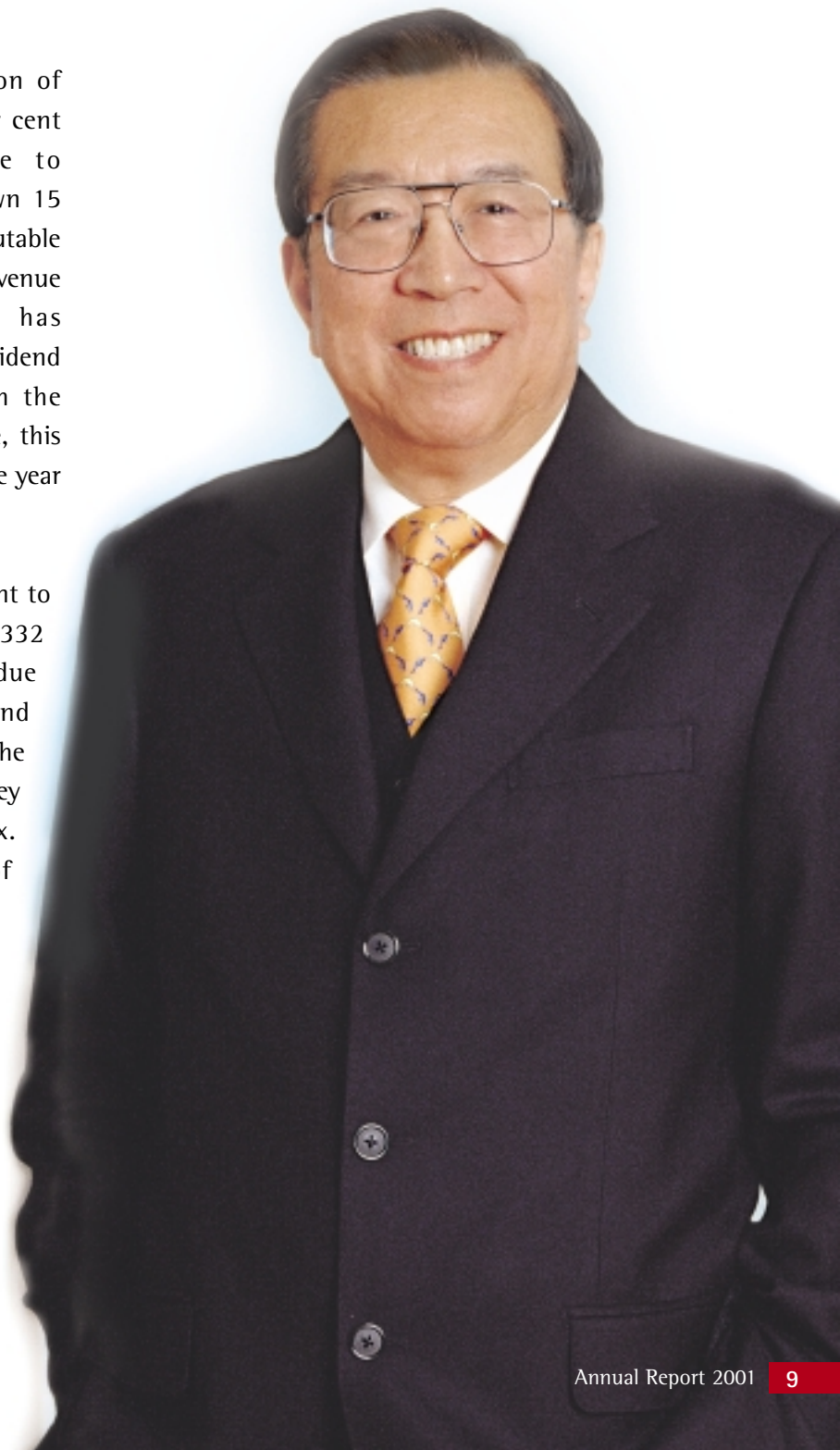
## Financial Results

HKEx made a profit before taxation of \$822 million in 2001, down 16 per cent from 2000. Profit attributable to shareholders was \$740 million, down 15 per cent. The decline is mainly attributable to a 14 per cent reduction in total revenue to \$1,998 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 fell by 12 per cent to \$1,176 million, compared with \$1,332 million in 2000. The decline was due mainly to stringent cost controls and operating efficiencies resulting from the merger and integration of the three key organisations that comprise HKEx. Shareholders' funds as at the end of 2001 were \$5,235 million.

## Firm Foundation

With the successful integration of The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Company Limited, HKEx has established a firm foundation for the future. The





# Chairman's Statement

---

Operating costs have been reduced, as cost control has become a top priority. In addition, the company is developing a more diverse income base through the launch of new products and services.

HKEx's core business faces a challenging environment as a result of globalisation and technological advances in the financial markets. New competition has emerged, including that from operators offering electronic trading across different markets around the globe. Many of today's leading equity and derivatives exchanges are changing to confront this challenge.

HKEx is well positioned to meet the competition in today's environment, given the investments it has made (and is continuing to make) in leading technology to improve the efficiency and functionality of its markets. In addition to its core exchange business, the company is actively exploring other opportunities for business growth and diversification.

## Vision and Strategy

HKEx has adopted a clear vision of excellence as a fully integrated cash and derivatives exchange with the goals of being

- the leading full-service financial market in Asia;
- the key international capital market for China;
- the Asian time-zone pillar in the global securities and futures markets; and
- the preferred Asian partner for other major equities and derivatives exchanges seeking to build global alliances.

To achieve these goals, HKEx has adopted a two-pronged growth strategy. This involves building on Hong Kong's strength as the leading international capital formation centre for China and expanding the company's business beyond Hong Kong and China.

## Market Quality

For the growth strategy to succeed, HKEx must maintain the quality of its markets or its customers and potential customers will seek opportunities elsewhere.

HKEx's market quality stems from Hong Kong's distinct strengths: a free enterprise system, the rule of law, a sound and balanced regulatory regime, and the free flow of capital and information. In particular, there is a strong commitment to high corporate governance standards and practices, which increase the fairness, transparency and accountability of listed companies and provides protection for investors, especially minority shareholders. Companies benefit as well, as good corporate governance practices help to reduce their capital formation costs.

To ensure that the quality and standards of Hong Kong's markets are on a par with the best international practices, HKEx regularly reviews its rules and seek market participants' views on their improvements. For example, on 21 January 2002, HKEx published a consultation paper on proposed amendments to the Listing Rules aimed at improving corporate governance standards and practices in Hong Kong. Comments from the market will be carefully examined

and the necessary rule changes will be made in consultation with the Securities and Futures Commission.

While on the subject of corporate governance, I am pleased to report that Standard & Poor's assigned HKEx a corporate governance score of 8.3 (out of a possible maximum score of 10) after completing a thorough evaluation of HKEx's corporate governance practices. Standard & Poor's noted the high priority HKEx gives to good corporate governance, and HKEx's clear interest in setting a good corporate governance example to the market. It was a useful experience to have an independent third party's assessment of HKEx's strengths and weaknesses.

## New Organisational Structure

To better implement its two-pronged growth strategy and to further streamline its operations and services, HKEx has made further changes to its organisational structure by merging its former Cash and Derivatives Business Units into a single Exchange Business Unit and creating a Corporate Strategy Unit.

The new organisational structure not only enables the company to use its resources in a more optimal manner, but also creates a new focus on strategic development.

## Outlook

The year ahead will continue to be challenging given the economic uncertainties, especially over the speed and robustness of the economic recovery in the US, the economic performance of Europe and the economic reforms in Japan.

A substantial part of the company's income comes from trading fees, clearing and settlement fees, listing fees and interest income. All these are driven by market sentiments and economic performance, both in Hong Kong and in the leading economies globally. As a result, HKEx's performance is heavily influenced by external factors, as evidenced by the downturn in 2001.

The economic uncertainties outlined above would suggest that activities on the cash and derivatives markets may remain subdued in the first half of 2002. This could have an impact on the company's revenue in 2002. To meet this challenge, HKEx will continue to work closely with the Government and the Securities and Futures Commission to remove market impediments and improve market quality in order to increase the attractiveness and liquidity of the Hong Kong markets, develop and introduce new products and services in order to broaden its revenue base, and maintain stringent cost control.

Finally, I acknowledge with a deep sense of gratitude the hard work of my fellow board members, the executive team and all staff members. The company's achievements would not have been possible without their efforts, and I thank them most sincerely.

LEE Yeh Kwong, Charles  
Chairman

13 March 2002