

# Corporate Social Responsibility Report

We believe that building good relationships with all our stakeholders, including our Shareholders, the government authorities, our employees, our Participants, our customers, our suppliers, market users, the investing public and the wider society, is the best guarantee of our long-term success. This remains the backbone of our approach to CSR.

In recent years, HKEx has underlined its commitment to responsible citizenship by developing a CSR framework and adopting relevant policies and guidelines. The framework guides the way we conduct business and is built upon HKEx's core values which give us a distinct identity and define the way we serve Shareholders and other stakeholders.

Our values include safeguarding the public interest while maximising Shareholder value, developing business by delivering competitive services and seeking new opportunities, maintaining a level playing field with long-term ethical client relationships, and pursuing excellence and productivity by retaining high quality people and promoting strong teamwork.

Our CSR framework is generalised in four areas, namely:



The Board provides leadership and ensures that CSR considerations are integrated into the day-to-day business activities of the Group. The Human Resources Department monitors the Group's staff welfare, ethical, social and environmental performance. Relevant policies and guidelines are laid down precisely in the Human Resources Manual as distributed to each employee and posted on both HKEx's corporate website and Intranet so as to ensure that HKEx and every one of its employees carry out these important responsibilities effectively.

While the CSR Report aims at presenting HKEx's work and achievements on CSR, this third publication provides more by way of hard data and evidence of our progress in 2006. More about our approach to CSR and the elaboration of the core values can be found on the "Corporate Governance Section" of HKEx's corporate website <http://www.hkex.com.hk/exchange/asso/exchange.htm>.

Core Values



## THE MARKETPLACE

*While maximising value for our Shareholders, HKEx seriously performs its public responsibilities as an exchange controller and is committed to achieving and maintaining the highest standards of openness, probity and accountability at all times for being one of the Public Bodies governed by the Prevention of Bribery Ordinance.*

*Operating transparently and effectively for the interest of our stakeholders*

- HKEx remains deeply committed to achieving and maintaining the highest standards of corporate governance. Details of the governance initiatives in 2006 are summarised in the Corporate Governance Report of this Annual Report.
- One annual report, two quarterly reports, one interim report, and four issues of newsletters were published to explain HKEx's financial position, operating performance and activities during the year.
- More than 200 news releases and about 30 announcements including circulars and letters to Shareholders on the latest HKEx developments and issues were issued.
- The HKEx website was revamped in September to enrich its contents and make it more user-friendly. An average daily of about 118,000 visits (2005: 68,000 visits), or a 74 per cent increase, to the HKEx website and about 13,300 visits (2005: 8,300 visits), or a 60 per cent increase, to the GEM website were recorded.
- Information posted on the Investor Relations Corner of HKEx's corporate website was updated in a timely manner to ensure its accuracy.
- Our Investor Services Team held a total of 75 meetings with fund managers and/or analysts and received more than 7,000 visitors (in over 200 visits) from different educational institutes.
- HKEx launched a Corporate Governance Section on its corporate website to provide more detailed and timely information about the Company's corporate governance framework and practices for its stakeholders.
- An Escalation and Incident Reporting Policy was refined to set forth the manner in which relevant incidents are escalated and reported to various levels within the organisation to facilitate swift action and timely communication with our stakeholders where appropriate.
- An interim dividend of \$0.94 per share was declared and a final dividend of \$1.19 per share was recommended according to the established dividend policy of a high dividend payout ratio.

*Adopting a neutral political stance to ensure impartiality*

- HKEx continued to take a neutral stance in political matters and did not make donations to any political parties.

*Ensuring a high standard of integrity and honesty when performing duties*

- The Code of Conduct for compliance by employees is articulated with the prevailing statutory rules and other regulations. The Covenant of Desensitisation was strengthened and revised as set out in the Human Resources Manual to avoid any potential conflicts that might arise from new employment for outgoing senior executives. Senior executives cannot take up any new employment that may constitute a conflict of interest with HKEx during the desensitisation period of three months from the date of termination of their employment.
- Three briefings on "Integrity and Corruption Prevention" delivered by the ICAC were arranged for a total of about 70 employees to ensure that HKEx employees, especially new recruits, are familiar with the relevant law and requirements.
- A whistle-blowing policy was devised and incorporated in the Human Resources Manual to encourage employees to internally report serious concerns about any malpractice which they might have become aware of, or genuinely suspect that the Company has been or may be involved in, without fear of reprisal or victimisation.

*Monitoring  
customer  
advocacy and  
recommendation,  
and meeting  
their needs*

- The Main Board Listing Rules were made available in simplified Chinese with effect from 13 November, in addition to traditional Chinese and English. A simplified Chinese version of the GEM Listing Rules will be available in March 2007.
- The Panel Member Nomination Committee was established on 12 April for the purpose of identifying and selecting nominees for the three Consultative Panels for the Board's consideration and approval to ensure that each of the Consultative Panels comprises members from different sectors of the market and industry.
- Seven meetings were held by the three Consultative Panels to collect members' views on the various proposals and developments relating to the Cash Market, Derivatives Market and clearing business. More details can be found under the Consultative Panels of the Corporate Governance Report of this Annual Report.
- A Discussion Paper on GEM was published in January to invite market views on the possible further development of GEM. A summary of the market responses was posted on the HKEx website in July.
- The Exchange Trading and Exhibition Hall Complex provides new and upgraded facilities for the benefit of traders and the public.
- Results of the Cash Market Transaction Survey 2004/2005 to understand the relative contribution to trading in the Cash Market by investor type were published in April. Details of the survey results are posted on the HKEx website.
- Results of the Retail Investor Survey 2005 to provide information on trends and characteristics of retail participation in the HKEx markets were published in June. Details of the survey results are posted on the HKEx website.
- Results of the Derivatives Market Transaction Survey 2005/2006 to track trading information by investor type and by trading purpose in HKEx's Derivatives Market were published in December. Details of the survey results are posted on the HKEx website.
- A total of seven classes on customer service/service excellence were organised for about 100 employees to improve their customer services skills.
- All major trading, clearing and settlement and market data dissemination systems achieved 100 per cent operational system uptime throughout 2006.
- Participated successfully in the FSTB-led Sector-wide Market Contingency Rehearsal Exercise on 4 November.
- Market rehearsals were organised for market participants before implementation of any new market systems/changes and to ensure that major market systems are robust and reliable even under system failover and site disaster situations. Details of the market-wide rehearsals are as follows:
  - > Derivatives Market market-wide rehearsal conducted on 4 March;
  - > CCASS/3 circuits migration to SDNet market-wide rehearsal on 7 May; and
  - > AMS/3 market-wide rehearsal conducted on 21 October.
- The capacity and processing efficiency of HKEx's various systems were upgraded to deal with the growing market demand. Consolidation of the four market system networks was carried out for higher processing capacity and cost efficiency. Details are provided in the Information Technology section under the Business Review of this Annual Report.
- The minimum trading spreads for securities trading between \$2 and \$20 were reduced on 24 July. Details are provided in the Cash Market section under the Business Review of this Annual Report.

*Strengthening  
and promoting  
Hong Kong's  
role as an  
international  
financial centre*

- CBBCs were introduced in June in accordance with the market needs. Details are provided in the Cash Market section under the Business Review of this Annual Report.
- A series of improvements to clearing services were made in response to the on-going review of market needs and development. Details are provided in the Clearing section under the Business Review of this Annual Report.
- HKEx continued to organise different training programmes for the investing public and market participants to improve their knowledge of new products and the associated investment risks. There were:
  - > 65 visits to individual EPs to collect their views on services and products provided in the Cash Market;
  - > 14 Continuous Professional Training sessions on topics related to the Cash Market;
  - > three EP relationship programmes to enhance the relationship with EPs and exchange views on market development;
  - > 26 briefings and seminars and 10 media interviews on CBBCs;
  - > 15 training sessions on terminal/MWS;
  - > 24 articles relating to the Cash Market published in newspapers;
  - > 78 training courses and seminars on Derivatives Market products;
  - > one education programme on stock futures;
  - > 10 Options Trading EPs were provided with sponsorship for organising public investor seminars on stock options; and
  - > an 11-week programme on Mainland-related futures.
- Amendments to the Listing Rules regarding the regulation of sponsors and compliance advisers were published in October to improve the regulation of sponsors and compliance advisers and to provide a level playing field and better protection for the Hong Kong market.
- A series of promotional activities and training programmes were organised on Hong Kong's financial markets, its listing requirements as well as corporate governance practices. Details are provided in the Business Development section under the Business Review of this Annual Report.
- HKEx supports the establishment of the FRC, which fortifies the regulatory mechanism for enhancing the accounting and reporting standards of listed companies. A Board member was appointed as a FRC member and a Memorandum of Understanding was signed in January 2007 under which HKEx, as one of the contributing parties, agreed to make an annual contribution of \$2.5 million for the first three financial years of the FRC and a one-off contribution of \$5 million to its Reserve Fund.
- HKEx continued to support and sponsor activities to promote good corporate governance and the development of the financial markets in Hong Kong. Some major events were:
  - > 中國中部貿易投資博覽會之2006年國際融資高峰論壇 organised by Hong Kong Productivity Council;
  - > 應對資本市場變革完善中企治理結構香港高峰論壇 organised by FSTB, Economic Research Center under SASAC of the State Council and Wen Wei Po;
  - > The Seventh Annual Corporate and Regulatory Update and the Corporate Governance Conference 2006 organised by the Hong Kong Institute of Chartered Secretaries;
  - > The Best Corporate Governance Disclosure Awards organised by the HKICPA;
  - > The CEPA Forum, Beijing 2006 jointly organised by the Hong Kong Securities Institute and the Securities Association of China;
  - > The HKMA Best Annual Reports, 2006 HKMA Quality Award and The Hong Kong Management Association Annual Conference organised by The Hong Kong Management Association;
  - > The Fourth Annual Conference on Cash, Treasury and Risk Management in China organised by Eurofinance;
  - > The Economic Summit organised by the Metro Finance and the Hong Kong Economic Journal; and
  - > The CFO Forum organised by the Hong Kong Trade Development Council.

## THE WORKPLACE

*HKEx's success relies on the performance and commitment of all its employees. Given the growing complexity and sophistication of the marketplace, staff development is essential to the competitiveness of the Group. Therefore, we attach prime importance to creating a supportive and quality environment to attract and retain the best people, and to motivating them to deliver their best performance and achieve corporate objectives and goals. To this end, we emphasise that "employees' support and sharing" are important to creating a caring environment.*

*Recognising  
and rewarding  
our people for  
their contribution*

- A performance management system is in place to ensure that employees are rewarded fairly for their efforts. It is periodically reviewed to ensure that it is competitive with market developments. HKEx commissioned an independent global consulting company specialising in human resources and compensation to conduct an overall review of HKEx's remuneration structure and policy with the aim of developing a structured and systematic approach to its remuneration structure. Details of the revised remuneration structure are summarised in the Remuneration Committee Report of this Annual Report.

*Maintaining  
a healthy and  
safe workplace*

- Salary increments and incentive awards are made to recognise staff contributions. As recommended by the Remuneration Committee with reference to the consultant's report, an average salary increase of four per cent of base salary for 2007, comprising two per cent for cost of living adjustment and another two per cent for promotion and market catch-up, was approved by the Board.
- More than 90 employees were either promoted/redesignated in view of their capabilities to take up higher levels of responsibilities.
- Strict compliance with the Occupational Safety and Health Policy, which is included in the Human Resources Manual, is encouraged. According to the workplace safety record, no major employee injury was reported during the year.
- A contingency plan setting out the key measures to prepare for and respond to a possible outbreak of pandemic influenza is in place, including a split-team arrangement, to prevent the spread of illness among the workforce and to minimise possible economic disruption for the business operations of HKEx.

*Encouraging  
employees to reach  
their full potential  
through training  
and career  
advancement*

- A sum of \$4 million was spent on staff training and a total of 113 training classes were conducted with more than 3,000 participants. On average, each employee received 30.8 hours of training. The training classes were mainly divided into the following categories:
  - > personal effectiveness programmes which focused on performance and career management, teamwork/self-empowerment, communication/presentation skills and customer service;
  - > management development/executive programme which focused on both people management and project management;
  - > orientation and job-related programmes which focused on personal computer skills, language, regulatory and compliance, and HKEx's products and services;
  - > professional development programmes, under which eight classes were organised for mainly professional staff on the relevant law changes and the latest development of the relevant rules and regulations; and
  - > tertiary education sponsorship and programmes, under which a total of 17 employees of different levels received degree/diploma education with HKEx's academic sponsorship.
- For the purpose of succession planning, a rotation programme for senior executives is in place. In January 2007, the Head of the Cash Market was appointed to take up a senior executive position in the Listing Division to further strengthen the operation of the Division and to be responsible for some of its initiatives, and whose position was taken up by a senior executive from the Chief Executive's Office.
- Job vacancies were posted on the Intranet to solicit internal staff applications before public recruitment. There were a total of eight transfers within the organisation.



*Promoting  
an environment  
of equal  
opportunity*

- HKEx continues to observe the Code of Practice on Equal Opportunities recommended by the Equal Opportunities Commission in Hong Kong. Among the 828 employees, 387 were females and 441 were males as at year-end.
- Procedures for handling employees' grievances are set out in the Human Resources Manual. No employees' complaints were received during the period.

*Encouraging  
open and  
transparent  
communication  
within the  
organisation*

- Eight Monthly Executive Forums and four Quarterly Staff Briefings were conducted by the Chief Executive to explain the business, policies and developments of HKEx to executives. Each of these presentations was posted on the Intranet for the information of all employees.
- Three additional investment funds were introduced under the Hong Kong Exchanges and Clearing Provident Fund Scheme to enhance investment choice for employees in response to their requests.
- Staff activities and useful information such as on health and medical issues were posted on "My Community" on the Intranet for employees' information.

*Providing  
support to the  
Staff Social Club  
in order to enhance  
employees' sense of  
belonging*

- A total of 72 staff exit interviews were conducted prior to the departure of employees to collect their views on different aspects of HKEx so as to help management make any improvements, as considered appropriate.
- The Staff Social Club has played an important role in advising management on employee benefit initiatives and in organising activities to enhance employees' sense of belonging and team solidarity. A budget of \$370,000 was allocated to support its activities throughout the year and with an increase of 20 per cent for 2007.
- Strong team spirit was embodied in HKEx's championships in the Supervisory Cup Basketball (for three consecutive years) and the Best Team Captain Award in the Central Rat Race competition. About 100 employees participated in 23 sporting matches, including the Supervisory Cup Basketball Competition and the Volleyball Competition.

*Caring  
about employees'  
welfare and  
satisfaction*

- A series of staff activities and interest groups were organised by the Staff Social Club for the purpose of strengthening staff relationships. They included a sea-food cruise, spring and autumn outings, a war game, dessert-making classes, a badminton competition, a World Cup guessing game, a wine-tasting gathering, a cocktail class and the annual dinner.
- We have a stable workforce with a turnover rate of 10 per cent in 2005 and 2006. Our total number of employees stood at 828 (2005: 804), including 35 temporary staff (2005: 25).
- We believe that prevention is far better than any cure:
  - > health talks on various topics are arranged to help employees better understand the spread of a virus and to prepare for the possible outbreak of a pandemic;
  - > subsidies are provided to staff and their immediate family members for influenza vaccinations;
  - > free medical check-ups are provided to employees and dependants who are aged 45 and above; and
  - > additional medical check-up services are offered to employees and their dependants at preferential rates on top of the existing medical insurance plan.
- A comprehensive office PC upgrade was completed in the fourth quarter of 2006 to improve office work productivity and efficiency.
- A number of activities were organised by the Parental Club to promote closer family relationships. They included two parental talks and a parental club outing.
- A total of 94 employees used the staff holiday house which was open to employee application to promote closer and harmonious family relationships.

## THE COMMUNITY

### *Contributing to the community*

*HKEx puts significant effort in being a caring company and a good corporate citizen. We believe that we should help build sustainable communities in which our business operates. We support local initiatives which we believe we can make a real and lasting contribution to the community and we encourage our employees to contribute to the community in which we live and work with their time.*

- We concentrate our support towards charitable organisations that help the aged, deprived children and the disabled. We also aid in disaster relief whenever there is real need. A budget has been allocated for making donations to charitable organisations and providing sponsorship for charitable activities.
- A total of about \$40 million was raised through the Stock Code Balloting for Charity Scheme to the Community Chest of Hong Kong.
- Under the Donation Programme, we provided electronic copies and hardcopies of listed issuer documents and HKEx publications to eight university libraries, three public libraries and the Vocational Training Centre.
- HKEx was chosen as a Caring Company for two consecutive years (2005/2006 and 2006/2007) by The Hong Kong Council of Social Service to recognise its contributions towards building a caring community spirit and cultivating corporate citizenship.
- The HKEx Volunteer Team with over 50 employees was established for the purpose of organising and participating regularly in charity and community services. A training workshop for the volunteers was held to strengthen skills and to share experiences in serving those in need.
- A total of about 100 employees participated in the following events and sponsorships amounting to \$37,500 were secured:
  - > visit to residential care home for the aged;
  - > outing to North District Park with the poor and elderly;
  - > outing to Hong Kong Riding Skill Academy cum BBQ with Project Care Small Group Homes Children; and
  - > visit to the Hong Kong Science Museum and Hong Kong Space Museum for deprived children from Tin Shui Wai.
- More than 800 employees participated in the following events. Donations of about 90 boxes of candies, cookies and mooncakes and a total amount of about \$370,000 by HKEx and its employees were made:
  - > Standard Chartered Hong Kong Marathon 2006 for the Hong Kong Sports Association for the Physically Disabled;
  - > St. James' Settlement Chinese New Year Food Donation Campaign for the elderly;
  - > Mark Lui & Friends Charity Concert for the Community Chest of Hong Kong;
  - > MTR Hong Kong Race Walking 2006 for the Hospital Authority Charitable Foundation;
  - > HKEx 7-a-side Soccer Challenge Cup 2006 cum Senior Management Charity Shield for the Community Chest of Hong Kong and others;
  - > Soccer King Charity Cup 2006 for the Community Chest of Hong Kong;
  - > Mahjong Competition for Charity 2006 for ORBIS;
  - > St. James' Settlement Mooncake Donation Campaign for the elderly;
  - > The Community Chest Dress Special Day 2006; and
  - > Central Rat Race 2006 for Mindset on mental health promotion.



### *Supporting our employees in the community*

## THE ENVIRONMENT

*Although HKEx does not operate in an environmentally sensitive business and is predominantly service-oriented, we do recognise that our operations can affect the environment and we have enhanced the Company's practices to minimise their environmental impact. The Group always acts according to the "3Rs - Reduce, Reuse and Recycle" waste management hierarchy and promotes conservation of resources across the Group through identifying opportunities to avoid unnecessary waste generation, use the consumable again and convert unwanted materials into useful recycled products.*

*Promoting wider use of electronic copies*

For the securities market:

- Approval of the proposal to abolish the requirement for Main Board issuers to publish paid announcements in newspapers. Before implementation of the proposal, a six-month transitional period will take place in the middle of 2007.
- 27 per cent of issuers' documents for posting on the HKEx website were made by electronic submission as compared to 24 per cent in 2005.
- The eIPO has been launched since 1999, by which applications for shares in an IPO can be made online. About 62 per cent of the new listings in 2006 provided eIPOs as compared to 48 per cent in 2005. The eIPO of ICBC accounted for about 40 per cent of its total valid applications.
- HKEx continues to review the proposal of reducing the size of prospectuses to decrease the use of paper.

*Minimising the environmental impact arising from HKEx's operations*

For HKEx:

- Use of energy-saving office equipment.
- Reduction in the usage of paper by using softcopy documents, including sending electronic greetings and electronic publications, and implementing e-leave and other administration-related application systems.
- Reuse of envelopes, office utensils and furniture whenever appropriate.
- Recycle of paper waste and IT equipment.
- Implementation of a new summer attire policy which allows employees (except those who are required to wear uniforms) to discard jackets and ties in the workplace from June to September for energy conservation in order to improve the air quality in Hong Kong.
- Close monitoring of the office temperature of all HKEx premises to strike a balance between energy savings and a comfortable workplace.

We remain committed to treating our stakeholders in an ethical and responsible manner, to contribute to economic development, and to improve the quality of life of our communities. For us, CSR is an on-going undertaking and we are constantly looking to do more and better. To further improve our work on CSR, we welcome your feedback on this report as well as other suggestions.

On behalf of the Board  
**MAU Kam Shing, Joseph**  
*Company Secretary*  
 Hong Kong, 8 March 2007